

COMPREHENSIVE ANNUAL
FINANCIAL REPORT
of the County of Kauai, Hawaii



For the Fiscal Year Ended
June 30, 2003

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

For The Fiscal Year Ended June 30, 2003

COUNTY OF KAUAI, HAWAII



**Brian J. Baptiste
Mayor**

**Michael Tresler
Director of Finance**

**Prepared by
The Department of Finance**

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

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INTRODUCTORY SECTION

Bryan J. Baptiste
Mayor

Gary K. Heu
Administrative Assistant



Michael H. Tresler
Director of Finance

Eric Knutzen
Deputy Director of Finance

County of Kaua'i
Department of Finance
Mo'ikeha Building
4444 Rice Street, Suite 280
Lihu'e, Kaua'i HI 96766
PH# 241-6525 FAX# 241-6529

February 23, 2004

Honorable Mayor Bryan J. Baptiste
Honorable William K. Asing, Chair
And Members of the Kaua'i County Council
County of Kaua'i
4444 Rice Street
Lihu'e, Hawai'i 96766

LETTER OF TRANSMITTAL

The Comprehensive Annual Financial Report (CAFR) of the County of Kaua'i (the County), State of Hawai'i for the fiscal year July 1, 2002 to June 30, 2003 is hereby submitted to you by the Department of Finance.

Responsibility for both the accuracy of the data and the completeness and fairness of the information presented, including all disclosures, rests with the Department of Finance. It is believed that the data presented is accurate in all material respects and that it is provided in a manner designed to fairly set forth the financial position and results of operations of the County. All disclosures necessary to gain a maximum understanding of the County's financial affairs have been included.

The Department of Finance is tasked with the responsibility for establishing and maintaining an internal control structure and process that is designed to ensure that the assets of the County are protected from loss, theft, or misuse. It is also the responsibility of the Department of Finance to compile adequate accounting data to allow for the accurate preparation of financial statements in conformity with generally accepted accounting principles (GAAP). The internal control process is designed to provide reasonable, but not absolute, assurance that these objectives are met.

Management is required to make decisions and judgments as to the concept of what constitutes reasonable assurance in reviewing the internal control mechanisms. Management must also weigh the cost of the control to the benefit that will likely be attained.

This report includes all funds of the County of Kaua'i, including its component unit, the Department of Water (the Department), established by the County Charter as a semi-autonomous body of the County government. This component unit is included in the County's reporting entity for fair presentation of the basic financial statements and to be in conformity with GAAP. The Board of Water Supply is appointed by the Mayor and is accountable for the activities of the Department. It would be potentially misleading if omitted in the County's financial reports because of its existing debt issuance, common employee benefits, and other fiscal dependence.

The Reporting Entity

The County of Kaua'i, commonly known as The Garden Island, includes the populated island of Kaua'i and Ni'ihau. The county seat is located in Lihue, Kaua'i. The island of Kaua'i is located at the northwestern end of the five major Hawaiian Islands, approximately 95 miles from Oahu. The island was formed some 25 million years ago by volcanic action. It somewhat resembles the shape of a cone, 32 miles in diameter, with 549 square miles of area and 137 miles of coastline. Ni'ihau is a privately owned island encompassing approximately 70 square miles and is inhabited primarily by native Hawaiians who work on the Robinson Family ranch. Owners of the island grant limited access to the general public. The overall impression of Kaua'i is that of open spaces and vistas with rural communities throughout the coastal regions. From Hanalei valley with lush mountainous views to Waimea Canyon known as the Grand Canyon of the Pacific, Kaua'i has made itself a tourist attraction.

The County of Kaua'i has operated under the Mayor-County Council form of government since 1969. The executive branch of the County is headed by the Mayor who is elected on a non-partisan basis for a four-year term and with a two term limit. The legislative branch is the County Council which is composed of seven members who shall be elected at-large on a non-partisan basis, for a two-year term with no limit on terms.

There are no subordinate or separate municipal entities within the County of Kaua'i's jurisdiction. All powers of the County shall be carried into execution as provided by its Charter or by ordinance of the County Council and the Mayor. The State of Hawaii constitution sets limits on total bonded indebtedness of the County. The County did not issue any special assessment debt and there is no overlapping bonded debt on general obligation bonds.

The County of Kaua'i provides a full range of municipal services. These services include Public Safety (police, fire, civil defense, humane society, outreach program, highway safety grants, drug related grants, liquor control, lifeguards), Sanitation (wastewater, recycling and solid waste operations), Public Works (engineering, building and construction inspections and approvals, janitorial and repair and maintenance of its facilities), Culture and Recreation (public pools, parks and beaches, golf course, neighborhood centers, recreation programs, beautification program, auditorium, stadium), Public Welfare (elderly affairs, transportation, housing, community development and assistance programs), Highways and Streets (highway repairs and maintenance, street lights) and General Government (mayor's office, council services, finance, prosecuting attorney, planning, personnel services, economic development, county attorney's office). The proprietary funds are accounted for separately from the above expense functions. Combining costs would obscure the matching of revenues and expenses of their required fund classification.

Municipal services provided by the State of Hawai'i are excluded from this report. The State provides educational systems, health and welfare benefits, airport and harbor functions, hospitals, State highway system and judicial system. The major sources of State revenue are the general excise tax and the corporate and personal income taxes. The State passes through many federally funded formula and block grants and portions of the transient accommodation tax revenues (TAT) to the County.

Major tax revenue sources of the County consist of real property taxes, public service company taxes, fuel taxes, franchise taxes, and motor vehicle weight taxes. Other revenue sources include the transient accommodations tax, Federal and State grants, construction fees, development and impact fees, golf and wastewater user fees. There are no personal taxes levied by the County.

Economic Conditions and Outlook

Rebounding from the "9/11" tragedy and its impact on the island's economy, the County of Kaua'i has experienced significant increases in land assessment values thereby increasing property tax revenues by approximately 11 percent from the prior year. Kaua'i's economy has experienced a strong upswing in job creation as indicated by decreasing unemployment figures.

High Technology/Military

The Pacific Missile Range Facility (PMRF), with a payroll of approximately \$30 million and an employee base exceeding 650 civilian and civil service employees, is a significant employer of island residents. PMRF is the world's largest missile range and fleet training facility encompassing 40,000 square miles of restricted airspace and a 1,000 square mile underwater tracking area. The facility offers the military the equipment and facilities to train ships, submarines, and the Marines and Army. The site is the testing ground for a new defense system allowing Aegis cruisers to receive missile warning signals from airborne radio stations up to 80 miles away. Prior to utilizing this system, a ship's on-board radar would only be able to detect missiles up to 19 miles away. A number of private industry technology firms have contracts with PMRF. The contractors have experienced accelerated growth since the "9/11" incident. The facility also supplements the visitor industry with transient travelers and business conferences.

West Kaua'i Technology and Visitor Center

With funding assistance from the U.S. Department of Commerce-Economic Development Administration, the Center was built to encourage "high-tech" companies to come to Kaua'i. Current tenants of the Center include Textron Systems Corporation, Solipsys Corporation, and Oceanit Laboratories.

Textron Systems Corporation's work on Kaua'i includes the design and construction of an electro-optical scanning system for the military. Solipsys recently provided its Exercise Scenario Planning and Real-time Integrated Test (ESPIRIT) to the PMRF. Solipsys also expanded their operations by opening an office in Lihue. ESPIRIT offers the PMRF a better method of event planning, monitoring and evaluation. It is also working with the PMRF to simulate and monitor intricate military exercises. Oceanit Laboratories is a Hawaii-based firm that provides coastal and environment engineering services and research and development in areas such as advanced theater missile defense.

Diversified Agriculture

Initiatives to diversify Kaua'i's agricultural crops have intensified over the last few years. Sugar, shrimp farming, seed corn, coffee, papaya, guava and taro have continued to increase in yield and acreage. Kaua'i's only tropical fruit disinfection/packing plant, which came on-line in July of 1998, initially helped the marketability for crops such as papaya to the mainland United States and abroad. This plant has been closed for more than two years due to management problems, and the County has actively supported the efforts of the University of Hawaii and the Agribusiness Development Corporation to reopen the facility. The County is also currently working with the range-fed beef industry, which provides a healthier alternative to grain fed beef. The need for a slaughterhouse and packing facility is paramount to the successful expansion of the industry.

The viability of sugar production for Kaua'i rests with one remaining plantation, Gay and Robinson. Widespread optimism was bolstered when the past season yielded 55,000+ tons with increases projected for the next two years. Gay and Robinson is looking towards increasing profits through the sale of value added products, with a goal of refining and selling up to 10,000 tons of sugar under its own name.

The County is actively exploring opportunities to help private industry companies develop and market products for sale within the State and abroad. The recent growth of e-commerce presents both an opportunity to market "made on Kaua'i" products and market our destination through our products. This represents the ideal vehicle through which we can cross-promote tourism and agriculture.

Tourism

Tourism held it's own in a difficult year that included the Iraq War and Severe Acute Respiratory Syndrome (SARS). While total visitor arrivals showed a slight decrease of 2.9 percent from 2002, visitors who traveled only to Kauai during their Hawaii vacation increased 8.3 percent. Kauai also made gains in the average length of stay for visitors: increasing to 7 days per visit in 2003 versus 6.7 days in 2002.

This trend is what the island's visitor industry has actively been pursuing through its marketing programs. With the limited amount of tourism that Kaua'i's infrastructure can practically bear, the strategy has been to entice visitors to stay longer and spend more money while on the island, rather than simply to attract more visitors.

Tourism will be bolstered by the introduction of two new American-flagged cruise vessels by Norwegian Cruise Lines and an increase in the number of direct flights to the mainland and international cities by United, American, Hawaiian, and Aloha airlines.

Construction

Economists statewide predict that construction will continue to surge and lead economic growth in 2004. With real estate sales for homes and condominiums rising and mortgage rates staying in the 5-7 percent range, it is not a surprise that the construction industry will be busy in the future. The only resort that has not rebuilt its facilities after Hurricane Iniki has made plans to start reconstruction in the near future.

Major Initiatives and Achievements

The County's major focus during the year was to bring the government back to the people, that is, to give the public more input as to the planning and needs of the community. The Mayor's *Kaleo O' Kaua'i* public meeting program held throughout the island's neighborhood was meant for this purpose.

The following are some of the major initiatives and achievements of fiscal year 2003:

Public Works – The near completion of the new \$21 million Police/Prosecuting Attorney/EOC facility. The start of renovations to the Pi'ikoi building in the Lihue Civic Center Complex that will allow the County to centralize various County agencies.

Solid Waste – Locating a new site for solid waste disposal that will replace the nearly filled current site at Kekaha. New recycling programs and a processing center will help delay the Kekaha landfill site from reaching its capacity. The County is seeking approval for vertical expansion of the current Kekaha landfill site that may extend the existing life of the landfill another five years.

Finance – The County was required to implement Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*, GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, during fiscal year 2003. These accounting pronouncements resulted in significant changes to the County's basic financial statements.

Road Maintenance – Two large road reconstruction projects, Rice Street and Kekaha Road, funded mainly by Federal Highway Administration funds, were nearly completed at June 30, 2003. The federal government's share of these reconstruction projects was approximately \$10 million.

Housing – U.S. Housing and Urban Development (HUD) made \$7.4 million available for the Section 8 lower income housing rental program for the fiscal year ended June 30, 2003. Other housing projects funded by HUD this year include the Community Development Block Grants and Home Investment program that totaled nearly \$3 million. The primary objectives of these grants are to execute a consolidated action plan to develop viable communities, including decent housing and a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income. Besides historic preservation and restoration projects, the Housing agency is providing low interest loans for moderate renovations and repairs and low interest mortgage loan financing to assist low-income first-time home buyers for the purchase of an existing dwelling to be used as a primary residence.

Recreation - U.S. Department of Transportation funded \$2.3 million for a scenic 2.1 mile Lydgate bike path along the east coast of Kaua'i. Visitors and residents are now using the bike path which was completed this year. Also in the planning stages is an extension of the bike path to an eventual length of 20 miles. This extension is expected to be partially financed with Federal matching funds.

Public safety - Kaua'i and the State of Hawaii are plagued with increasing drug use, especially crystal methamphetamine. Top priorities of the County administrators and Kauai's lawmakers are increased efforts to combat illegal drug dealers and to establish a rehabilitation program and a treatment facility for drug users who want to provide themselves a productive and healthy life after drug treatment. Statewide and local resources are being pursued to address this pervasive problem.

Budgeting Controls

The County maintains a budgetary control system that will enable County departments to be in compliance with legal provisions incorporated in the annual budget ordinance and capital improvement budgets as approved by the Kaua'i County Council.

By legal provisions of the County Charter and annual budget ordinance, every appropriation except for those made in the capital improvement budget shall lapse at the close of the fiscal year if the appropriation remains unencumbered or unexpended. The County utilizes an encumbrance accounting system for its operating funds whereby contracts, purchase orders and other commitments are recorded as reservations of fund balances.

The County Charter requires that the annual budget ordinance be balanced. Total estimated expenditures should not exceed estimated revenues. Budget to actual statements of revenue, expenditures, and changes in fund balances are presented for comparison of legally enacted budget appropriations (original and final) to expenditures and encumbrances actually incurred.

Cash Management

During the fiscal year, County funds were held in local institutions as follows: Bank of Hawaii - 38 percent, First Hawaiian Bank - 14 percent, Central Pacific Bank - 8 percent, and American Savings Bank - 1 percent. Temporarily idle cash available for investment for all funds averaged \$64.2 million for the fiscal year that provided an average weighted yield of 2.44 percent. Authorized and fully collateralized investments included time certificates deposits (TCD's), U.S. Government Agencies mutual fund investments and bank repurchase agreements (REPO's).

Risk Management and Insurance

The goal of risk management is to enable management to prevent or minimize losses. Management has obtained adequate insurance coverage for liability and property losses for the County to prudently safeguard the assets and minimize potentially disabling circumstances to operate the county government. The County of Kaua'i initiated a self-insurance program when the "hard insurance market" made it impossible to get insurance. At the same time, the loss experience of many major reinsurance carriers was reaching unacceptably high levels, which forced an increase in premiums. A reserve balance of \$2.1 million in the self-insurance fund is available to cover damages to County-owned vehicles and workers' compensation claims under \$500,000 and in excess of \$1.5 million.

Employee Union Contracts

County employees are members of seven different bargaining units. All seven bargaining units have contracts that expired on June 30, 2003. The Police Officers union (SHOPO) has signed a four year contract for its members with wage increases averaging four percent per year starting July 1, 2003. Other employee union collective bargaining negotiations are in process or are in arbitration.

Independent Audit

The County Charter requires an annual financial audit by licensed and independent certified public accountants. The basic financial statements in this report have been audited by KMH LLP. The financial statements of the Department of Water, an enterprise fund included in the government-wide financial statements as a discretely presented component unit, were also audited by KMH LLP. The County is also required to obtain an annual "single audit" in conformity with the provisions of the Single Audit Act of 1984, as amended, and the U.S. Office of Management and Budget Circular A-133, *"Audit of States, Local Governments, and Non-Profit Organizations."* Information pertaining to this single audit, including the schedule of expenditures of federal awards, findings and recommendations, and the report of the independent accountants on the internal controls and compliance with all applicable laws and regulations are included in a separate report.

By contract the auditor must express an opinion on the fair presentation of the basic financial statements and required supplementary information in conformity with generally accepted accounting principles and in accordance with auditing standards as set forth by the American Institute of Certified Public Accountants and the General Accounting Office. The supplemental and other supporting schedules are presented for additional analysis and are subjected to certain limited auditing procedures and an "in relation to" audit opinion. The introductory and statistical sections of the CAFR are unaudited which is explicitly stated in the audit opinion.

Awards

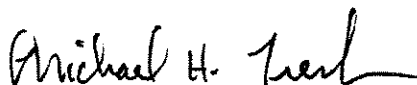
The Government Finance Officer Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County for its CAFR for the fiscal year ended June 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

This award is valid for a one-year period only. We believe our current CAFR continues to meet the requirements and we are submitting it to the GFOA to determine its eligibility for another certificate. The County has received this award for the tenth consecutive year.

Acknowledgments

The preparation of the CAFR on a timely basis was made possible by the efficient and dedicated services of the entire staff of the Department of Finance and fiscal personnel in other County departments. We are grateful to the Public Works department for their assistance and contributions in gathering the information needed for the infrastructure reporting. We also want to thank the Mayor and the County Council for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,



Michael H. Tresler
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

County of Kauai,
Hawaii

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

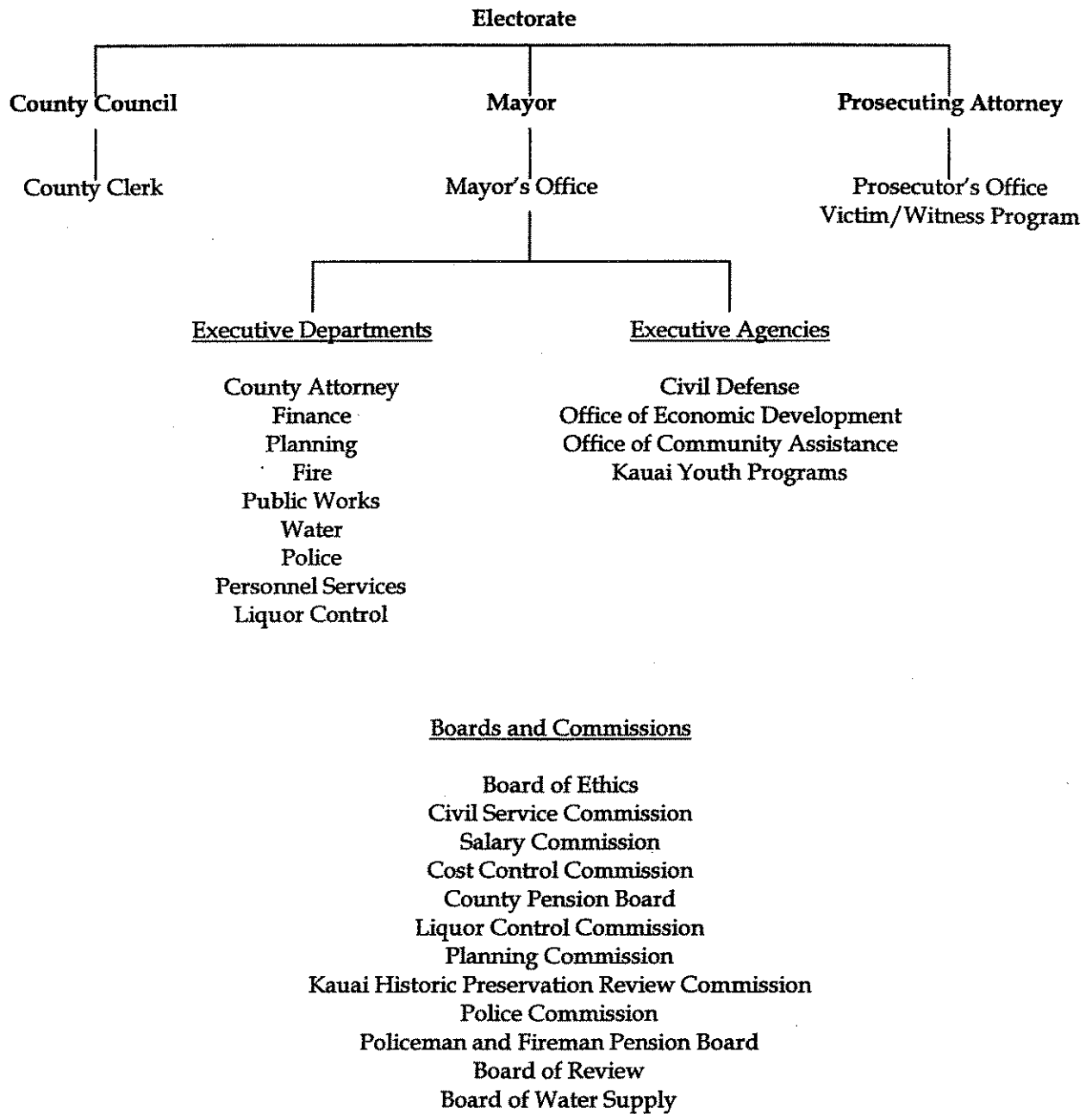
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**County of Kauai
Organization Chart**



County of Kauai
Principal Elected Officials
2002 – 2003 Term

County Council Members

William K. Asing	Chair
James Tokioka	Vice-Chair
Jay Furfaro	Member
Daryl W. Kaneshiro	Member
Maurice Munechika	Member
Mel Rapozo	Member
JoAnn A. Yukimura	Member

Mayor

Brian J. Baptiste

Prosecuting Attorney

Michael Soong

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FINANCIAL SECTION



K A R N S Y E E M U R A K A M I H A N A S H I R O C H O Y

Independent Auditor's Report

To the Chair and Members of the
County Council of Kauai, Hawaii
Lihue, Kauai, Hawaii

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Kauai, Hawaii (the County), as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of County management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and Major Special Revenue Funds thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the County has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, effective July 1, 2002.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2003, on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 12 through 20, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, combining and individual fund financial statements and schedules, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules listed in the table of contents under other supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KMH LLP

KMH LLP

November 26, 2003
Honolulu, Hawaii

County of Kauai Management's Discussion and Analysis

As management of the County of Kauai (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County, excluding the component unit, exceeded its liabilities (the net assets of the primary government) at the close of the fiscal year by \$451.7 million, an increase of \$20.8 million from the prior fiscal year in its government-wide financial statements.
- As of the close of the fiscal year, the County's governmental fund financial statements reported combined ending fund balances of \$54.3 million, a decrease of \$2.4 million in comparison with the prior year. Approximately 34 percent of this total amount, or \$18.4 million, is available for spending at the County's discretion (unreserved-undesignated fund balance).
- At the end of the current fiscal year, unreserved-undesignated fund balance for the general fund was \$9.8 million, an increase of \$1.2 million from the prior year.
- The County did not issue new general obligation bonds or State Revolving Fund (SRF) Loans during the current fiscal year. In 2003, normal maturity of principal reduced the general obligation bonds by \$3.5 million and the SRF loans by \$800,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

This is the first year the County has prepared the Comprehensive Annual Financial Report (CAFR) using the new financial reporting requirements as prescribed by the Government Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This new form of governmental financial reporting includes, as its basic financial statements, the statement of net assets and statement of activities along with the traditional fund accounting financial statements. All capital assets, including land, construction in progress, buildings, equipment, and infrastructure assets are reported in the statement of net assets. The total liabilities in the statement of net assets similarly includes all long-term liabilities of the County including general obligation debt outstanding, accrued compensated absences, landfill closure and post-closure costs and other long-term loans. The statement of activities reports all expenditures by function, including depreciation expense. The government-wide financial statements provide a clear picture of the County as a single, unified entity instead of components of funds and accounts. Compliance to legal budget requirements is provided by budget to actual comparisons included in the CAFR.

Fund financial reporting is well-suited to achieving the goal of fiscal accountability by demonstrating legal compliance with enacted budgets of the County's legislative body. The government-wide statements provides operational accountability that will measure efficiency and effectiveness of operations similar to that of other private-sector businesses therefore making analysis and comparability of financial activities among different government entities possible.

County of Kauai Management's Discussion and Analysis

BASIC FINANCIAL STATEMENTS

Government-Wide Financial Statements - The two government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. It presents the financial picture of the County from the economic resources measurement focus using the accrual basis of accounting.

The statement of net assets presents information on all of the County's assets (including capital and infrastructure assets) and liabilities (including long term debt), with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses including depreciation expense are reported in this statement for some items that will result in cash flow differences. The accounting principle of matching revenues with expenses especially in capitalizing capital assets instead of recording an expenditure for when it was purchased and expensing the capital asset over its life will present a equitable approach in determining total expenses for the year.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, public works, highways and streets, sanitation, public welfare, and culture and recreation. The business-type activities of the County include the Public Housing Fund, the Sewer Fund, and Golf Fund.

The government-wide financial statements include the governmental activities and business-type activities of the County (known as the primary government) and the Department of Water Supply (Department), which is a semi-autonomous entity, and is reported separately from the primary government, as a component unit. Complete financial statements of the Department, which include its Management's Discussion and Analysis (MD&A), may be obtained from the Department of Water at 4398 Pua Loke, Lihue, Kauai, Hawaii, 96766.

These government-wide financial statements can be found in the first section of the basic financial statements.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. These funds are reported using the modified-accrual basis of accounting.

County of Kauai Management's Discussion and Analysis

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The County's governmental fund types are the general, special revenue, debt service and capital projects funds. The County maintains 22 individual governmental funds. Governmental fund financial statements include a balance sheet and the statement of revenues, expenditures, and changes in fund balances. The General Fund, Housing and Community Development Revolving Fund, Federal Grants Fund, and Bond Fund are considered major funds. Data from the other 18 non-major governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Budgetary comparisons have been provided for the County's General and major special revenue funds (Housing and Community Development Revolving Fund), to demonstrate compliance with its annual appropriated budget as required for GAAP financial statements.

Proprietary Funds - Services for which the County operates similar to a business-type activity are reported in proprietary funds. These proprietary funds provide the same type of financial information (long and short term) as the government-wide financial statements, only in more detail. The County's enterprise funds include the Public Housing Fund, Sewer Fund and Golf Fund. These enterprise funds are reported as business-type activities in the government-wide financial statements.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Required Supplementary Information (RSI) - This MD&A is a RSI component.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are the last section of the basic financial statements.

Other Supplementary Information (OSI) - This section follows the basic financial statements and includes a combining balance sheet and combining statement of revenues, expenditures, and changes in fund balances which displays the individual fund data of the 18 other non-major governmental funds. These non-major funds are the Highway, Liquor, Beautification, Criminal Asset Forfeiture, Special State, Solid Waste, Plans and Permit Revolving, Section 8, State Grants, Parks and Playgrounds, Sewer Trust, Development, Bikeway CIP, Special State CIP, General CIP, Highway CIP, Grants CIP and Debt Service.

County of Kauai Management's Discussion and Analysis

Also included as OSI are the budgetary comparison schedules for the following special revenue and enterprise funds: Highway, Liquor, Beautification, Criminal Asset Forfeiture, Solid Waste Disposal, Public Housing, Sewer, and Golf. Both original and final budget authorizations are included to compare changes to the original annual budget ordinance.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As allowed by GASB, the County has not restated prior year revenues or expenses for purposes of providing comparative data analysis for the MD&A. In the future years, comparative analysis of government-wide data will be presented.

By far the largest portion of the County's net assets (92 percent) is related to its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The County's restricted net assets category represents four percent of the net assets. These restrictions of net assets are imposed by enabling legislation or parties outside the government (such as creditors, grantors, contributors, laws or regulations of other governments).

The following tables summarize the County's government-wide financial statements as of June 30, 2003.

Statement of Net Assets (condensed)
as of June 30, 2003

	Government-wide Activities	Business-type Activities	Total Primary Government
<u>Assets</u>			
Current	\$ 58,804,772	\$ 7,739,370	\$ 66,544,142
Other assets	23,773,364	222,950	23,996,314
Capital assets, net	<u>436,348,082</u>	<u>46,660,259</u>	<u>483,008,341</u>
Total Assets	518,926,218	54,622,579	573,548,797
<u>Liabilities</u>			
Current	25,161,682	576,487	25,738,169
Long-term:			
Due within one year	7,295,683	1,078,086	8,373,769
Due after one year	<u>74,540,777</u>	<u>13,172,689</u>	<u>87,713,466</u>
Total Liabilities	106,998,142	14,827,262	121,825,404
<u>Net Assets</u>			
Invested in capital assets, net of related debt	382,979,092	32,750,662	415,729,754
Restricted	16,881,171	222,950	17,104,121
Unrestricted	<u>12,067,813</u>	<u>6,821,705</u>	<u>18,889,518</u>
Total Net Assets	<u>\$ 411,928,076</u>	<u>\$ 39,795,317</u>	<u>\$ 451,723,393</u>

County of Kauai Management's Discussion and Analysis

Statement of Activities (condensed) as of June 30, 2003

	Government-wide Activities	Business-type Activities	Total Primary Government
Revenues			
Program Revenues:			
Charges for services	\$ 10,287,540	\$ 8,182,965	\$ 18,470,505
Operating grants and contributions	18,413,974	-	18,413,974
Capital grants and contributions	8,309,018	-	8,309,018
General Revenues:			
Property taxes	42,985,183	-	42,985,183
Public service tax	2,328,625	-	2,328,625
Franchise tax	2,320,446	-	2,320,446
Fuel tax	3,824,428	-	3,824,428
Grants and contributions not restricted to specific programs	19,892,249	-	19,892,249
Investment income	789,024	11,386	800,410
Total Revenues	\$ 109,150,487	\$ 8,194,351	\$ 117,344,838

	Government-wide Activities	Business-type Activities	Total Primary Government
Expenses			
General government	\$ 18,115,071	\$ -	\$ 18,115,071
Public safety	22,638,833	-	22,638,833
Public works	6,146,232	-	6,146,232
Highways and streets	12,771,243	-	12,771,243
Sanitation	6,973,823	-	6,973,823
Culture and recreation	4,357,378	-	4,357,378
Public welfare	14,148,697	-	14,148,697
Interest on long-term debt	2,831,923	-	2,831,923
Housing rentals enterprise	-	1,462,199	1,462,199
Sewer enterprise	-	5,633,059	5,633,059
Golf enterprise	-	1,638,409	1,638,409
Total Expenses	87,983,200	8,733,667	96,716,867
Change in net assets before transfer	21,167,287	(539,316)	20,627,971
Transfers	(189,138)	189,138	-
Change in net assets after transfer	20,978,149	(350,178)	20,627,971
Net assets, beginning of year	390,949,927	40,145,495	431,095,422
Net assets, end of year	\$ 411,928,076	\$ 39,795,317	\$ 451,723,393

County of Kauai Management's Discussion and Analysis

ANALYSIS OF GOVERNMENTAL FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$54.3 million, a decrease of \$2.4 million in comparison with the prior year. Approximately 34 percent (\$18.4 million) of this total amount constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance (\$35.9 million) is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period.

General Fund - The General Fund is the chief operating fund of the County. At the end of the current fiscal year, unreserved-undesignated fund balance of the General Fund was \$9.8 million, while the total fund balance reached \$14.4 million. Unreserved-undesignated fund balance represents 20 percent of its expenditures.

The net change in the fund balance for the General Fund was an increase of \$2.0 million during the current fiscal year. The fluctuation of the fund balance is not unusual as the fund balance for General Fund was at \$12 million in fiscal year ending 2002, \$14 million in fiscal year ending 2001 and \$11 million for fiscal year ending 2000. Key factors for this year's increase are discussed below.

Real property taxes are the most significant revenue source for the County. This fiscal year's collection of \$42.3 million represents an increase of \$4.2 million over prior year. The increase in real property taxes can be attributed to the increase in the County's net assessed value for land and buildings of approximately \$600 million and \$100 million, respectively, in comparison to the prior fiscal year. Even with the lowering of the real property tax rates for all classes of property the County realized a net increase of 11 percent from real property tax revenues. Another significant revenue increase in the General Fund related to the transient accommodations tax (TAT) of approximately \$1.0 million due to higher hotel occupancy levels experienced in the current fiscal year. These increases were offset by interest earnings decreasing by approximately \$1.0 million due to the low investment interest rates experienced in the current fiscal year.

Total expenditures in the General Fund amounted to \$49.0 million, which represents an increase of approximately \$1.4 million over the previous year. Salaries and wages expenditures of \$29.1 million reflect an increase of approximately \$1.0 million (3.3 percent increase) from the prior year and accounts for 71 percent of the total increase in expenditures.

County of Kauai Management's Discussion and Analysis

The public safety functional category of expenditures, approximately \$20.1 million, shows the largest increase of all General Fund expenditure categories, approximately \$1.3 million, which represents an increase of 6 percent over prior year. Approximately \$700,000 of the increase is salary related. Training fire and police personnel specifically for terrorism and biological attacks has had a significant effect on the increase in salary expenditures.

Housing and Community Development Revolving Fund - The Housing and Community Development Revolving Fund accounts for home rehabilitation loans made to qualified individuals under the U.S. Housing and Urban Development's (HUD's) Community Development Block Grants rehabilitation program. Fund balance increased approximately \$500,000 over prior year. The increase is primarily due to increases in intergovernmental revenues. In the prior year, the County recorded an adjustment to reduce intergovernmental revenues based on a finding by the State. Current year intergovernmental revenues reflect normal amounts from operations.

Federal Grants Fund - The Federal Grants Fund accounts for expenditures of federal grants. The County recorded expenditures of approximately \$7.7 million which represents an increase of \$1.2 million over prior year. The increase is due to an increase in federal grant funding obtained during the current year. Since revenues and expenditures are equal, there was no effect on fund balance.

Bond Fund - The Bond Fund accounts for the cost of constructing County capital improvements financed by general obligation bond proceeds. In the current year, the Bond Fund recognized approximately \$5.6 million in capital expenditures representing a decrease of approximately \$6.6 million from prior year. In the prior year, the County had more construction activity compared to the current year (e.g., ADA compliance projects and Police/Prosecuting Attorney/EOC facility). Since there was no new general obligations issued, there was no other financing sources to offset expenditures, therefore fund balance also experienced a decrease of approximately \$5.6 million.

Highway Fund - The Highway Fund, which is funded by fuel taxes (\$3.8 million), franchise taxes (\$2.3 million) and motor vehicle weight taxes (\$3.2 million, classified as licenses and permits) collectively, made up 9.5 percent (\$9.3 million) of the revenues in the governmental funds. Total Highway Fund revenues increased by \$500,000 or 6 percent over prior year's revenues (\$8.8 million). Increases in motor vehicle weight tax revenues are the result of approximately 1,000 additional registered vehicles on Kauai compared to prior year.

Highway Fund expenditures increased by \$200,000 or 3 percent to \$7.1 million. During the year, \$1.9 million was transferred to the Highway CIP Fund to repair and reconstruct Kauai's aging roads. Revenues still exceeded expenditures and operating transfers by \$500,000, increasing fund balance to \$2.6 million.

Solid Waste Fund - The Solid Waste Fund accounts for the revenues and expenditures related to the County's landfills. Current year revenues of \$2.6 million from tipping fees and commercial disposal fees represent an increase of approximately \$300,000 or 13 percent over prior year revenues. These revenues are expected to offset future landfill maintenance, closure and post-closure costs. Total expenditures were approximately \$6.3 million which represents an increase of \$100,000 over prior year and is approximately \$1.0 million less than budgeted primarily due to the County not implementing certain programs.

Unbudgeted Funds - The County's unbudgeted funds which include Section 8, Plans and Permit Revolving, Federal Grants, Special State Grant, Capital Projects Grants, and State Grants funds has no effect on the financial position of the County because expenditures are funded by federal or state governments. Usually the revenues equal the expenditures because revenue is recognized as the related expenditure is made. The

County of Kauai Management's Discussion and Analysis

total expenditures for all unbudgeted funds were \$25.6 million compared to \$23.7 million last fiscal year, an increase of \$1.9 million. Most of the increase came from the HUD Section 8 program. HUD has increased the funds available to subsidize rental housing for lower income families by approximately \$1.2 million over prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were no significant changes in the original and final amended budgets. The General Fund collected 99 percent of the budgeted revenues. The larger variances in General Fund expenditures came from health fund costs and police and fire salaries. Federal and state grants reimburse the General Fund for funded positions that reduce the salary and fringe cost normally charged to the General Fund. Normal health fund cost increases did not materialize as budgeted, which resulted in a positive variance of \$1.7 million. The General Fund budgeted \$5.2 million for subsidies to the Solid Waste Fund but required only \$3.6 million. The increase in Solid Waste Fund revenues, combined with expenditures less than budgeted reduced the General Fund's contribution requirement. Other large budgetary variances occurred in the Housing and Community Development Revolving Fund specifically related to the Kalepa Village housing expansion. The \$1.2 million budgeted for improvements to the Kalepa Village housing expansion was not spent during the year and needs to be re-appropriated next year.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS (dollars in thousands)						
	Governmental Activities		Business-type Activities		Total	
	FY2003	FY2002	FY2003	FY2002	FY2003	FY2002
Non-depreciable assets:						
Land	\$ 154,534	\$ 151,527	\$ 2,586	\$ 2,586	\$ 157,120	\$ 154,113
Construction in progress	38,398	25,785	-	-	38,398	25,785
	<u>192,932</u>	<u>177,312</u>	<u>2,586</u>	<u>2,586</u>	<u>195,518</u>	<u>179,898</u>
Depreciable assets:						
Buildings and improvements	49,382	45,718	58,619	58,562	108,001	104,280
Machinery and equipment	28,730	24,161	2,539	2,634	31,269	26,795
Infrastructure	584,166	578,398	8,879	8,879	593,045	587,277
	<u>662,278</u>	<u>648,277</u>	<u>70,037</u>	<u>70,075</u>	<u>732,315</u>	<u>718,352</u>
Accumulated Depreciation	<u>(418,862)</u>	<u>(411,475)</u>	<u>(25,963)</u>	<u>(24,141)</u>	<u>(444,825)</u>	<u>(435,616)</u>
Total Capital Assets, Net	<u>\$ 436,348</u>	<u>\$ 414,114</u>	<u>\$ 46,660</u>	<u>\$ 48,520</u>	<u>\$ 483,008</u>	<u>\$ 462,634</u>

Capital Assets - The County's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounted to \$483 million (net of accumulated depreciation), an increase of approximately \$20 million. This investment in capital assets includes land, buildings and improvements, machinery and equipment, infrastructure (roadways and systems, bridges and sewer and golf systems) and construction-in-progress. The increase in infrastructure assets (\$5.8 million) and land (\$3.0 million) includes Ulu Maika, Unahe, and Huali streets, dedicated to the County as a requirement for development. Major increases in construction in progress relates to expenditures for the new Police/Prosecuting Attorney/EOC facility, resurfacing Kekeha access roads, Lydgate Bike and Pedestrian path and Kaana street construction. The completion of the new Kauai Bus baseyard construction project accounts for the increase in buildings and improvements. Most capital projects pass through construction-in-progress before being capitalized because

County of Kauai Management's Discussion and Analysis

of the multi-year completion process. The new integrated assessment system for real property, 15 new police vehicles and a new fire truck makes up the addition to the machinery and equipment category of the capital assets.

Additional information on the County's capital assets can be found in Note 7 in the notes to the basic financial statements.

Long-Term Debt - At the end of the current fiscal year, the County's long-term debt, excluding the Department, consisted of the following: total bonded debt of approximately \$55.0 million, loans payable of approximately \$10.5 million and capital lease obligations of approximately \$1.8 million. Of the total bonded debt, approximately \$1.4 million represents revenue bonds secured solely by specified revenue resources. The County did not issue any new debt in the current fiscal year.

The County maintains an "A" rating from both Standard & Poor's and Fitch Rating and an "A1" rating from Moody's Investors Service for general obligation debt. An investment grade rating of this type indicates a strong capacity to pay off debt.

The State Constitution limits the amount of general obligation debt a governmental entity may issue to 15 percent of the total assessed value of its real property. The current debt limitation for the County is approximately \$978 million. As of June 30, 2003 the County's current outstanding debt of \$51.6 million represents approximately six percent of our debt limitation.

Additional information on the County's long-term debt can be found in Note 10 in the notes to the basic financial statements.

Requests for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the Director of Finance, 4444 Rice Street, Suite 280, Lihue, Hawaii 96866.

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BASIC FINANCIAL STATEMENTS

Government-wide Financial Statements

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County of Kauai, Hawaii

Statement of Net Assets

June 30, 2003

	Primary Government			Component Unit
	Governmental	Business-type		Department
	Activities	Activities	Total	of Water
Assets				
Current Assets:				
Cash and cash equivalents	\$ 14,159,071	\$ 2,355,257	\$ 16,514,328	\$ 4,164,152
Equity interest in pooled investments	29,116,395	2,752,000	31,868,395	12,793,676
Receivables, net	15,021,123	1,710,789	16,731,912	1,856,425
Real property held for sale	-	891,455	891,455	-
Materials and supplies	-	-	-	473,852
Prepaid items	508,183	29,869	538,052	92,038
Total current assets	58,804,772	7,739,370	66,544,142	19,380,143
Noncurrent Assets:				
Restricted assets:				
Cash and cash equivalents	-	222,950	222,950	1,842,249
Equity interest in pooled investments	-	-	-	9,254,723
Other	-	-	-	21,774
Loans receivable	23,773,364	-	23,773,364	-
Other assets	-	-	-	1,465,151
Capital assets (net of accumulated depreciation)				
Infrastructure	196,124,487	3,042,788	199,167,275	77,640,081
Buildings and improvements	38,146,603	40,080,496	78,227,099	3,973,168
Machinery and equipment	9,145,411	951,375	10,096,786	1,381,166
Land	154,533,759	2,585,600	157,119,359	385,396
Construction in progress	38,397,822	-	38,397,822	11,921,752
Total assets	518,926,218	54,622,579	573,548,797	127,265,603
Liabilities				
Current Liabilities:				
Accounts payable	4,771,863	408,682	5,180,545	2,039,742
Contracts payable	839,584	6,856	846,440	402,119
Customer deposits	-	12,291	12,291	414,330
Deferred revenue	18,385,451	8,556	18,394,007	-
Interest payable	1,164,784	140,102	1,304,886	-
Noncurrent Liabilities:				
Due within one year:				
Bonds and loans payable	3,665,000	1,047,798	4,712,798	381,000
Compensated absences	2,418,782	30,288	2,449,070	201,479
Claims and judgements	215,000	-	215,000	-
Capital leases	696,901	-	696,901	-
Landfill closure and postclosure cost	300,000	-	300,000	-
Liabilites payable from restricted funds	-	-	-	172,537
Due in more than one year:				
Bonds and loans payable	47,915,000	12,861,799	60,776,799	12,363,274
Compensated absences	6,103,933	310,890	6,414,823	668,000
Claims and judgements	1,604,305	-	1,604,305	-
Capital leases	1,092,089	-	1,092,089	-
Landfill closure and postclosure cost	17,825,450	-	17,825,450	-
Total liabilities	106,998,142	14,827,262	121,825,404	16,642,481
Net Assets				
Invested in capital assets,				
net of related debt	382,979,092	32,750,662	415,729,754	87,879,887
Restricted for:				
Self insurance	2,092,323	-	2,092,323	-
Debt service	3,665,000	222,950	3,887,950	-
Capital projects	11,123,848	-	11,123,848	5,623,611
Unrestricted	12,067,813	6,821,705	18,889,518	17,119,624
Total net assets	\$ 411,928,076	\$ 39,795,317	\$ 451,723,393	\$ 110,623,122

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Statement of Activities
For the Year Ended June 30, 2003

Functions/Programs	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Department of Water	
				Capital Grants and Contributions	Governmental Activities		
Primary Government:							
Governmental activities:							
General government	\$ 18,115,071	\$ 2,448,175	\$ 3,780,914	\$ 205,872	\$ (11,680,110)	\$ -	\$ -
Public safety	22,638,833	673,697	1,643,434	229,179	(20,092,523)	-	-
Public works	6,146,232	-	106,250	-	(6,039,982)	-	-
Highways and streets	12,771,243	3,544,639	32,361	7,793,426	(1,400,817)	-	-
Sanitation	6,973,823	2,610,953	394,753	10,184	(3,957,933)	-	-
Culture and recreation	4,357,378	621,626	207,675	70,357	(3,457,720)	-	-
Public welfare	14,148,697	388,450	12,248,587	-	(1,511,660)	-	-
Interest on long-term debt	2,831,923	-	-	-	(2,831,923)	-	-
Total governmental activities	87,983,200	10,287,540	18,413,974	8,309,018	(50,972,668)	-	-
Business-type activities							
Housing programs	1,462,199	1,228,540	-	-	(233,659)	-	-
Sewer	5,633,059	5,636,334	-	-	3,275	-	-
Golf	1,638,409	1,318,091	-	-	(320,318)	-	-
Total business-type activities	8,733,667	8,182,965	-	-	(550,702)	-	-
Total primary government	\$ 96,716,867	\$ 18,470,505	\$ 18,413,974	\$ 8,309,018	\$ (50,972,668)	\$ (550,702)	\$ -
Component Unit:							
Department of Water	\$ 12,418,805	\$ 12,370,954	\$ -	\$ 1,773,533	\$ -	\$ -	\$ 1,725,682
General revenues:							
Property taxes					42,985,183	-	42,985,183
Public service company tax					2,328,625	-	2,328,625
Franchise tax					2,320,446	-	2,320,446
Fuel taxes					3,824,428	-	3,824,428
Grants and contributions not restricted to specific programs					19,892,249	-	19,892,249
Unrestricted investment earnings					789,024	11,386	800,410
Transfers					(189,138)	189,138	-
Total general revenues and transfers					71,950,817	200,524	72,151,341
Change in net assets					20,978,149	(350,178)	20,627,971
Net assets - beginning, as restated					390,949,927	40,145,495	431,095,422
Net assets - ending					\$ 411,928,076	\$ 39,795,317	\$ 451,723,393

The notes to the basic financial statements are an integral part of this statement

Fund Financial Statements

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Governmental Fund Financial Statements

MAJOR FUNDS

General Fund

The General Fund accounts for all financial resources traditionally associated with government which are not required legally, or by sound financial management, to be accounted for in another fund.

Special Revenue Funds

Housing and Community Development Revolving Fund

Accounts for home rehabilitation loans made to qualified individuals under the Department of Housing and Urban Development's Community Development Block Grants rehabilitation loan program. Monies collected are to be used to finance other eligible Community Development Block Grant projects.

Federal Grants Fund

Accounts for expenditures of federal grants.

Capital Projects Fund

Bond Fund

Accounts for the cost of constructing County capital improvements financed by general obligation bond proceeds.

NONMAJOR FUNDS

Debt Service Fund

Debt service funds are used to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs.

Special Revenue Funds

Highway Fund

Accounts for the costs of maintaining the County's highways and streets. Financing is provided primarily by fuel, motor vehicle weight and public utility franchise taxes, and licenses and permits.

Liquor Fund

Accounts for costs of operating the County's Liquor Department. Financing is provided by liquor licenses and permits.

Beautification Fund

Accumulates monies for the beautification of highways and streets. Defrays the cost of disposing of abandoned vehicles. Financing is provided by motor vehicle registration fees.

Criminal Assets Forfeiture Fund

Accounts for monies received by the Kauai Police Department under the Comprehensive Crime Control Act of 1984 and accumulated interest thereon. The monies are to be expended by the Kauai Police Department for law enforcement purposes.

Special State Grant Fund

Accounts for monies from the State of Hawaii grants-in-aid to counties.

Solid Waste Disposal Fund

Accounts for costs of operating the County's solid waste disposal system. Financing is provided by charges to commercial users for solid waste disposal services and General Fund contributions for other users.

Plans and Permits Revolving Fund

Accounts for monies collected from new permits and penalties.

Section 8 Fund

Accounts for a contract with the federal government pursuant to Section 8 of the Housing and Community Development Act of 1974. Funds are to be expended for housing assistance payments for lower-income families and for administrative costs.

Capital Projects Funds**State Grants Fund**

Accounts for expenditures of state grants.

Parks and Playgrounds Capital Improvement Fund

Accounts for the cost of developing County parks and playgrounds financed by assessments to developers of residential projects.

Sewer Trust Fund

Accounts for the costs of expanding the County's sewer system financed by assessments to developers of subdivisions. Construction of the sewer system improvements is financed by general obligation debt that covers multiple public improvements. Repayment of the debt applicable to the sewer system will be made from General Fund sources. Accordingly, all sewer trust fund capital improvements are accounted for in the Capital Projects Fund and recorded as contributed capital in the Sewer Enterprise Fund upon completion.

Development Capital Improvement Fund

Accounts for capital improvements financed by assessments to developers of residential, hotel, commercial or industrial projects.

Bikeway Capital Improvement Fund

Accumulates monies for the construction and maintenance of bikeways and related activities financed by bicycle license fees.

Special State Capital Improvement Fund

Accounts for the cost of capital projects financed by State of Hawaii grants-in-aid to counties.

General Capital Improvement Fund

Accounts for costs of projects financed by the General Fund.

Highway Capital Improvement Fund

Accounts for the costs of projects financed by the Highway Fund.

Grants Capital Improvement Fund

Accounts for the costs of constructing County capital improvements financed by federal and state grants.

County of Kauai, Hawaii

Governmental Funds

Balance Sheet

June 30, 2003

	General Fund	Housing and Community Development Revolving Fund	Federal Grants Fund	Bond Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 344,156	\$ 2,926,895	\$ -	\$ 863,520	\$ 10,024,500	\$ 14,159,071
Investments	10,703,324	-	1,731,257	9,600,000	7,061,814	29,116,395
Receivables, net	1,290,784	-	-	-	266,104	1,556,888
Due from other funds	8,618,760	-	-	-	3,797,974	12,416,734
Due from other governments	905,871	-	3,724,599	-	9,071,889	13,702,359
Loans receivable	-	23,712,741	-	-	60,623	23,773,364
Prepaid expenses	-	-	-	-	508,183	508,183
Total assets	\$ 21,862,895	\$ 26,639,636	\$ 5,475,856	\$ 10,463,520	\$ 30,791,087	\$ 95,232,994
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ 1,983,828	\$ 52,175	\$ 1,019,728	\$ 150,268	\$ 1,564,455	\$ 4,770,454
Contracts payable	1,991	-	84,190	448,785	306,027	840,993
Due to other funds	3,797,974	-	1,691,756	-	6,927,004	12,416,734
Deferred revenue	957,419	14,493,227	2,680,182	-	1,212,042	19,342,870
Claims & judgements	215,000	-	-	-	-	215,000
Compensated absences	18,782	-	-	-	-	18,782
Landfill closure/postclosure	490,000	-	-	-	2,847,011	3,337,011
Total liabilities	7,464,994	14,545,402	5,475,856	599,053	12,856,539	40,941,844
Fund Balances:						
Reserved for:						
Encumbrances	2,489,476	23,620	-	3,561,471	3,119,241	9,193,808
Loans receivable	-	9,219,514	-	-	60,623	9,280,137
Debt service	-	-	-	-	3,665,000	3,665,000
Prepaid items	-	-	-	-	508,183	508,183
Self insurance	2,092,323	-	-	-	-	2,092,323
Unreserved:						
Designated for capital projects	-	-	-	6,302,996	4,820,852	11,123,848
Undesignated	9,816,102	2,851,100	-	-	5,760,649	18,427,851
Total fund balances	14,397,901	12,094,234	-	9,864,467	17,934,548	54,291,150
Total liabilities and fund balances	\$ 21,862,895	\$ 26,639,636	\$ 5,475,856	\$ 10,463,520	\$ 30,791,087	\$ 95,232,994

The notes to the basic financial statements are an integral part of this statement.

County of Kauai, Hawaii

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2003

Total fund balances - governmental funds	\$	54,291,150
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Amounts reported for governmental activities in the statement of
net assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds. These assets
consists of:

Land	154,533,759	
Infrastructure assets	584,166,306	
Buildings and improvements	49,382,442	
Equipment	28,729,731	
Construction work in progress	38,397,822	
Accumulated depreciation	<u>(418,861,978)</u>	
Total capital assets		436,348,082

Some of the County's revenues will be collected after the year-end but are
not available soon enough to pay for the current period's expenditures
and therefore are deferred in the funds.

957,419

An allowance for uncollectible real property taxes was charged to current revenues

(238,124)

Some liabilities are not due and payable in the current period and
therefore are not reported in the funds. Those liabilities consist of:

Bonds and loans payable	(51,580,000)	
Accrued interest on bonds	(1,164,784)	
Capital leases	(1,788,990)	
Compensated absences	(8,503,933)	
Claims and judgements	(1,604,305)	
Landfill closure/postclosure costs	<u>(14,788,439)</u>	
Total long-term liabilities		(79,430,451)

Net assets of governmental activities

\$ 411,928,076

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances For the Fiscal Year Ended June 30, 2003

	General Fund	Housing and Community Development Revolving Fund	Federal Grants Fund	Bond Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	\$ 44,594,513	\$ -	\$ -	\$ -	\$ 6,144,874	\$ 50,739,387
Licenses and permits	1,253,078	-	-	-	4,308,395	5,561,473
Rents and concessions	621,626	-	-	-	9,600	631,226
Interest	789,024	379,126	-	-	241,882	1,410,032
Intergovernmental revenues	11,224,077	336,938	7,637,819	-	18,412,713	37,611,547
Charges for current services	860,003	-	-	-	2,436,675	3,296,678
Miscellaneous	178,842	-	-	-	226,839	405,681
Total revenues	59,521,163	716,064	7,637,819	-	31,780,978	99,656,024
Expenditures:						
Current						
General government	17,787,738	-	2,494,486	-	1,457,930	21,740,154
Public safety	19,908,014	-	980,289	-	871,238	21,759,541
Public works	4,368,836	-	-	-	106,250	4,475,086
Highways and streets	-	-	-	-	7,265,140	7,265,140
Sanitation	-	-	183,244	-	6,504,655	6,687,899
Culture and recreation	4,026,585	-	84,315	-	123,360	4,234,260
Public welfare	1,756,943	251,991	3,895,485	-	8,022,325	13,926,744
Capital outlay	1,181,751	-	-	5,558,020	9,880,523	16,620,294
Debt service:						
Principal	-	-	-	-	3,490,000	3,490,000
Interest	-	-	-	-	2,906,146	2,906,146
Total expenditures	49,029,867	251,991	7,637,819	5,558,020	40,627,567	103,105,264
Excess (deficiency) of revenues over expenditures	10,491,296	464,073	-	(5,558,020)	(8,846,589)	(3,449,240)
Other financing sources (uses):						
Proceeds from capital leases	1,181,751	-	-	-	-	1,181,751
Operating transfers in	903,000	-	-	-	11,871,213	12,774,213
Operating transfers out	(10,560,351)	-	-	-	(2,403,000)	(12,963,351)
Total other financing sources (uses)	(8,475,600)	-	-	-	9,468,213	992,613
Net change in fund balances	2,015,696	464,073	-	(5,558,020)	621,624	(2,456,627)
Fund balance, July 1, 2002	12,382,205	11,630,161	-	15,422,487	17,312,924	56,747,777
Fund balance, June 30, 2003	\$ 14,397,901	\$ 12,094,234	\$ -	\$ 9,864,467	\$ 17,934,548	\$ 54,291,150

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances - Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2003

Net change in fund balances-total governmental funds \$ (2,456,627)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period. 13,024,702

An allowance for uncollectible real property taxes reduced the tax revenue in the statement of net assets. This transaction was not applied in the governmental funds. (238,124)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Contribution of infrastructure assets	8,775,168	
Revenues earned during the year but collected after year-end	957,419	
Total revenues that do not provide current financial resources		9,732,587

Borrowings provide current financial resources to governmental funds; however, issuing debt increases long-term liabilities in the statement of net assets. This amount represents proceeds from capital leases in the current period. (1,181,751)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these principal payments amounted to:

Bond principal retirement	3,490,000	
Capital lease payments	862,807	
Total long-term debt repayment		4,352,807

Some items reported in the statement of activities do not involve current financial resources and therefore are not reported as expenditures in governmental funds. These activities are:

Increase in compensated absences	(884,624)	
Increase in claims and judgments	(998,312)	
Increase in landfill closure / postclosure care costs	(446,732)	
Net decrease in accrued interest payable	74,223	
Net additional expenditures		(2,255,445)

Change in net assets - governmental activities	\$ 20,978,149
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The notes to the basic financial statements are an integral part of this statement.

County of Kauai, Hawaii

General Fund

Statement of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 3)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Real property taxes	\$ 41,733,353	\$ 41,733,353	\$ 42,265,888	\$ 532,535
Public service company taxes	2,160,000	2,160,000	2,328,625	168,625
Total taxes	43,893,353	43,893,353	44,594,513	701,160
Licenses and permits:				
Street use	121,175	121,175	155,578	34,403
Business licenses and fees	15,310	15,310	25,050	9,740
Non-business licenses and fees	1,007,000	1,007,000	1,072,450	65,450
Total licenses and permits	1,143,485	1,143,485	1,253,078	109,593
Rents and concessions	569,800	569,800	621,626	51,826
Interest	2,053,000	2,053,000	789,024	(1,263,976)
Intergovernmental revenues:				
State grants-in-aid share of transient accomodation tax	11,600,000	11,600,000	11,099,370	(500,630)
Other state grants-in-aid	3,500	3,500	9,450	5,950
Federal government grant - civil defense	65,000	65,000	97,546	32,546
Payment in lieu of taxes	30,000	30,000	17,711	(12,289)
Total intergovernmental revenues	11,698,500	11,698,500	11,224,077	(474,423)
Charges for current services:				
General government	219,555	219,555	376,362	156,807
Public safety	315,750	315,750	248,249	(67,501)
Sundry	178,850	178,850	235,392	56,542
Total charges for current services	714,155	714,155	860,003	145,848
Miscellaneous	296,610	296,610	178,842	(117,768)
Total revenues	60,368,903	60,368,903	59,521,163	(847,740)

(Continued)

County of Kauai, Hawaii

General Fund

Statement of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 3)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Expenditures:				
General government:				
Council Services and County Clerk	\$ 1,364,341	\$ 1,397,341	\$ 1,149,275	\$ 248,066
Elections	256,631	523,631	210,992	312,639
Office of the Mayor:	760,772	806,028	680,310	125,718
Office of the County Attorney	893,039	1,297,039	1,255,488	41,551
Office of the Prosecuting Attorney	615,044	615,044	609,392	5,652
Victim Witness	105,407	105,407	105,409	(2)
Department of Finance:				
Administration	361,240	356,240	280,742	75,498
Accounting and budgeting	998,738	997,238	633,410	363,828
Treasury	1,124,185	1,140,369	941,774	198,595
Purchasing	421,798	428,798	419,849	8,949
Real property	681,774	724,590	655,991	68,599
Information technology	1,236,024	1,236,024	998,383	237,641
Pension contributions and payments:				
Act 130, SLH 1943	1,000	1,000	-	1,000
Employees' retirement system	1,844,800	1,844,800	1,514,263	330,537
Social security taxes	2,050,000	1,870,408	1,503,764	366,644
County pensions and expenses	21,725	21,725	22,573	(848)
Employee benefits:				
Vacation pay	460,410	460,410	458,390	2,020
Workers' compensation	500,000	515,000	477,132	37,868
Unemployment compensation	90,000	75,000	37,696	37,304
Public employees' health fund	6,048,000	6,048,000	4,397,838	1,650,162
Insurance:				
Liability insurance	570,000	674,000	654,670	19,330
Fire insurance	850,000	746,000	745,138	862
Fleet insurance	250,000	250,000	250,000	-
Other:				
Central services cost	(1,697,017)	(1,517,925)	(1,517,925)	-
Claims	400,000	400,000	240,220	159,780
Telephone services	240,000	240,000	222,616	17,384
Personnel services	461,190	461,190	435,578	25,612
Planning	1,045,927	1,055,927	730,332	325,595
Office of Economic Development	832,225	832,225	787,442	44,783
Total general government	22,787,253	23,605,509	18,900,742	4,704,767

(Continued)

County of Kauai, Hawaii

General Fund

Statement of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 3)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Public safety:				
Police Department	\$ 11,680,679	\$ 11,654,351	\$ 10,872,606	\$ 781,745
Fire Department	8,458,661	8,458,661	8,022,709	435,952
Kauai Civil Defense Agency	551,425	551,425	487,973	63,452
Humane Society	519,700	519,700	519,700	-
Kauai Outreach	80,344	80,344	67,045	13,299
Kauai Equal Access Program	66,696	66,696	52,418	14,278
Total public safety	21,357,505	21,331,177	20,022,451	1,308,726
Public works:				
Administrative	366,538	337,338	290,935	46,403
Fiscal and clerical	198,488	201,988	200,510	1,478
Plans, survey and construction	791,730	747,130	643,749	103,381
Building division:				
Inspection	972,239	978,539	971,832	6,707
Repairs and maintenance	1,304,104	1,334,604	1,325,016	9,588
Janitorial	1,284,057	1,246,357	1,151,705	94,652
Total public works	4,917,156	4,845,956	4,583,747	262,209
Culture and recreation:				
Administrative	314,749	301,749	283,787	17,962
Maintenance	1,671,250	1,727,750	1,582,876	144,874
Public pools and beaches	175,568	177,568	158,370	19,198
Recreation centers programs	198,528	198,528	186,546	11,982
Operational teen centers	568,324	602,924	544,931	57,993
Beautification	478,939	474,339	438,732	35,607
Auditorium	231,429	238,029	205,530	32,499
Stadiums	431,990	421,090	328,465	92,625
Total culture and recreation	4,070,777	4,141,977	3,729,237	412,740
Public welfare:				
Office of Community Assistance:				
Housing	231,114	231,114	228,498	2,616
Elderly affairs	474,989	474,989	459,723	15,266
Transportation	1,325,835	1,325,835	1,311,552	14,283
Adult crossing supervisors	33,500	33,500	27,370	6,130
Total public welfare	2,065,438	2,065,438	2,027,143	38,295
Total expenditures	55,198,129	55,990,057	49,263,320	6,726,737

(Continued)

County of Kauai, Hawaii

General Fund

Statement of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 3)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Excess of revenues over expenditures	\$ 5,170,774	\$ 4,378,846	\$ 10,257,843	\$ 5,878,997
Other financing sources (uses):				
Operating transfers in	350,000	903,000	903,000	-
Operating transfers out	(12,960,277)	(12,960,277)	(10,560,351)	2,399,926
Total other financing uses	(12,610,277)	(12,057,277)	(9,657,351)	2,399,926
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Note 3)	\$ (7,439,503)	\$ (7,678,431)	600,492	\$ 8,278,923
Encumbrances lapsed			575,203	
Unreserved-undesignated fund balance, July 1, 2002			8,640,407	
Unreserved-undesignated fund balance, June 30, 2003			9,816,102	
Reconciliation to fund balance:				
Add: Reserved for encumbrances, June 30, 2003			2,489,476	
Reserved for self insurance claims, June 30, 2003			2,092,323	
Fund Balance, June 30, 2003			\$ 14,397,901	

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Housing and Community Development Revolving Fund Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note 3)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Interest	\$ 5,500	\$ 5,500	\$ 379,126	\$ 373,626
Intergovernmental revenues	1,260,385	1,254,885	336,938	(917,947)
Total revenues	1,265,885	1,260,385	716,064	(544,321)
Expenditures- public welfare:				
Administrative cost	186,385	195,435	167,667	27,768
Central services cost	-	-	7,388	(7,388)
ADA improvements	90,000	90,000	-	90,000
Kilauea estates septic tank	40,000	34,000	-	34,000
Paanau housing office and maintenance building	200,000	350,000	44,613	305,387
Kalepa village Phase II B & C	395,000	1,225,000	11,976	1,213,024
Kauai housing needs study	25,000	25,000	-	25,000
Home-buyer taxes and insurance	28,000	24,950	825	24,125
Loan proceeds adjustment	-	-	(414,609)	414,609
Residential rehabilitation loan program	145,000	85,000	27,248	57,752
Economic development loan program	75,000	75,000	62,450	12,550
Home-buyer loan program	76,000	136,000	129,244	6,756
Total expenditures	1,260,385	2,240,385	36,802	2,203,583
Excess (deficiency) of revenues over expenditures (Note 3)	\$ 5,500	\$ (980,000)	679,262	\$ 1,659,262
Encumbrances lapsed			12	
Decrease in reserve for loan receivable			575,106	
Unreserved-undesignated fund balance, July 1, 2002			1,596,720	
Unreserved-undesignated fund balance, June 30, 2003			2,851,100	
Reconciliation to fund balance:				
Add: Reserved for encumbrances, June 30, 2003			23,620	
Reserved for loans receivable, June 30, 2003			9,219,514	
Fund Balance, June 30, 2003			\$ 12,094,234	

The notes to the basic financial statements are an integral part of this statement

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Proprietary Fund Financial Statements

MAJOR FUNDS

Public Housing Fund

Accounts for the acquisition, development, sale and rental of low-income housing. Financing is provided by low-income housing sales and operating contributions.

Sewer Fund

Accounts for the costs of operating the County's sewer system. Financing is provided by charges to users for sewer services.

NONMAJOR FUND

Golf Fund

Accounts for the cost of operating the County's golf course. Financing is provided primarily by golf fees, rents and concessions.

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County of Kauai, Hawaii

Proprietary Funds Statement of Net Assets June 30, 2003

	Business-type Activities - Enterprise Funds			
	Public Housing	Sewer	Golf	Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,442,492	\$ 878,757	\$ 34,008	\$ 2,355,257
Equity interest in pooled investments	1,554,000	1,198,000	-	2,752,000
Receivables, net	41,819	1,668,970	-	1,710,789
Property held for sale	891,455	-	-	891,455
Prepaid expenses	-	-	29,869	29,869
Total current assets	3,929,766	3,745,727	63,877	7,739,370
Noncurrent assets:				
Restricted cash and cash equivalents	222,950	-	-	222,950
Capital assets:				
Land	2,574,600	11,000	-	2,585,600
Buildings	21,693,981	36,375,087	549,713	58,618,781
Machinery and equipment	-	1,737,799	801,498	2,539,297
Transmission and distribution	-	6,139,300	2,739,725	8,879,025
Less accumulated depreciation	(4,195,605)	(20,866,881)	(899,958)	(25,962,444)
Total noncurrent assets	20,295,926	23,396,305	3,190,978	46,883,209
Total Assets	24,225,692	27,142,032	3,254,855	54,622,579
Liabilities				
Current liabilities:				
Accounts payable	59,047	291,902	57,733	408,682
Contracts payable	-	6,856	-	6,856
Interest payable	25,738	80,376	33,988	140,102
Security deposits payable	12,291	-	-	12,291
Deferred revenue	-	8,294	262	8,556
Compensated absences, current portion	-	30,288	-	30,288
Bonds and loans payable, current portion	120,000	827,798	100,000	1,047,798
Total current liabilities	217,076	1,245,514	191,983	1,654,573
Noncurrent liabilities:				
Bonds and loans payable	1,300,000	9,596,799	1,965,000	12,861,799
Compensated absences	-	190,369	120,521	310,890
Total noncurrent liabilities	1,300,000	9,787,168	2,085,521	13,172,689
Total Liabilities	1,517,076	11,032,682	2,277,504	14,827,262
Net Assets				
Invested in capital assets, net of related debt	18,652,976	12,971,708	1,125,978	32,750,662
Restricted for debt service	222,950	-	-	222,950
Unrestricted	3,832,690	3,137,642	(148,627)	6,821,705
Total Net Assets	\$ 22,708,616	\$ 16,109,350	\$ 977,351	\$ 39,795,317

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Proprietary Funds

Statement of Revenues, Expenses and Changes in Fund Net Assets

For the Year Ended June 30, 2003

	Business-type Activities - Enterprise Funds			
	Public Housing	Sewer	Golf	Total
Operating Revenues:				
Pa'anau rents	\$ 497,645	\$ -	\$ -	\$ 497,645
Other rents and concessions	523,221	-	338,842	862,063
Charges for current services	-	5,636,334	977,287	6,613,621
Low-income housing sales	205,889	-	-	205,889
Other	1,785	-	1,962	3,747
Total Operating Revenues	1,228,540	5,636,334	1,318,091	8,182,965
Operating Expenses:				
Public housing	579,753	-	-	579,753
Sewer	-	3,860,921	-	3,860,921
Golf	-	-	1,317,490	1,317,490
Depreciation	542,349	1,299,492	182,714	2,024,555
Cost of low-income housing sales	203,434	-	-	203,434
Total Operating Expenses	1,325,536	5,160,413	1,500,204	7,986,153
Operating Income (Loss)	(96,996)	475,921	(182,113)	196,812
Nonoperating Revenues (Expenses):				
Interest from investments	-	11,386	-	11,386
Interest on long-term debt	(136,663)	(472,646)	(138,205)	(747,514)
Total Nonoperating Revenues (Expenses)	(136,663)	(461,260)	(138,205)	(736,128)
Income (Loss) Before Operating Transfers	(233,659)	14,661	(320,318)	(539,316)
Operating Transfers	-	-	189,138	189,138
Change in net assets	(233,659)	14,661	(131,180)	(350,178)
Net assets - beginning	22,942,275	16,094,689	1,108,531	40,145,495
Net assets - ending	\$ 22,708,616	\$ 16,109,350	\$ 977,351	\$ 39,795,317

The notes to the basic financial statements are an integral part of this statement

County of Kauai, Hawaii

Proprietary Funds

Statement of Cash Flows

For the Year Ended June 30, 2003

	Business-type Activities Enterprise Funds			
	Public Housing	Sewer	Golf	Total
Cash Flows from Operating Activities:				
Receipts from customers	\$ 1,258,951	\$ 5,822,524	\$ 1,581,938	\$ 8,663,413
Payments to suppliers and employees	(1,210,677)	(3,726,055)	(1,539,665)	(6,476,397)
Net cash provided by operating activities	48,274	2,096,469	42,273	2,187,016
Cash Flows from Non-capital Financing Activities:				
Transfers (to) from other funds	(16,048)	-	272,954	256,906
Advances from other funds	407,138	-	-	407,138
Net cash provided by non-capital financing activities	391,090	-	272,954	664,044
Cash Flows from Capital and Related Financing Activities:				
Purchases of capital assets	-	(34,243)	(134,558)	(168,801)
Principal payments-bonds and loans	(110,000)	(805,771)	(100,000)	(1,015,771)
Interest payments-bonds and loans	(110,925)	(385,962)	(104,217)	(601,104)
Net cash used in capital and related financing activities	(220,925)	(1,225,976)	(338,775)	(1,785,676)
Cash Flows from Investing Activities:				
Interest received from investments	-	16,566	-	16,566
Change in equity interest in pooled investments, net	396,000	(194,437)	-	201,563
Net cash provided by (used in) investing activities	396,000	(177,871)	-	218,129
Net increase (decrease) in cash and cash equivalents	614,439	692,622	(23,548)	1,283,513
Cash and cash equivalents, July 1, 2002	1,051,003	186,135	57,556	1,294,694
Cash and cash equivalents, June 30, 2003 (including \$222,950 for the Public Housing reported in restricted accounts)	<u>\$ 1,665,442</u>	<u>\$ 878,757</u>	<u>\$ 34,008</u>	<u>\$ 2,578,207</u>
Reconciliation of operating income (loss) to net Cash Flows provided by Operating Activities				
Operating income (loss)	\$ (96,996)	\$ 475,921	\$ (182,113)	\$ 196,812
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	542,349	1,299,492	182,714	2,024,555
Changes in assets and liabilities:				
Receivables	(7,935)	184,884	-	176,949
Property held for sale	(397,758)	-	-	(397,758)
Prepaid expenses	-	-	2,121	2,121
Accounts payable	8,614	168,083	12,505	189,202
Contracts payable	-	(528)	-	(528)
Deferred revenue	-	(813)	262	(551)
Current portion of compensated absences	-	(30,570)	26,784	(3,786)
Net cash provided by operating activities	<u>\$ 48,274</u>	<u>\$ 2,096,469</u>	<u>\$ 42,273</u>	<u>\$ 2,187,016</u>

The notes to the basic financial statements are an integral part of this statement

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Fiduciary Fund Financial Statements

Agency Fund

Accounts for the collection and payment to other governments of monies collected by the County on behalf of the other governments. Monies consist primarily of the collection of State of Hawaii motor vehicle weight taxes.

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County of Kauai, Hawaii

Fiduciary Funds

Statement of Fiduciary Net Assets

As of June 30, 2003

	<u>Agency Fund</u>
<u>Assets</u>	
Cash	\$ 1,310,445
Investments	<u>650,000</u>
Total assets	<u>1,960,445</u>
 <u>Liabilities</u>	
Accounts payable	1,525
Customer deposits	1,352,092
Due to other governments	<u>606,828</u>
Total liabilities	<u>1,960,445</u>
 Net Assets	<u><u>\$ -</u></u>

The notes to the basic financial statements are an integral part of this statement

Notes to the Financial Statements

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

The County of Kauai (County) is a municipal corporation governed by an elected mayor and a seven-member council. The County operates under a County Charter, which was originally adopted in 1969 and last amended in 2002.

The accompanying financial statements present the operations of the County, as primary government, as well as its discretely presented component unit, the Department of Water. The County's operations are organized by the following general functions: general government, public safety, public works, highways and streets, sanitation, culture and recreation, public welfare, housing and sewer or other enterprises. For financial reporting purposes, the County includes all funds, account groups, agencies, boards, commissions and authorities that are fiscally dependent upon the County and for which the County is financially accountable.

State of Hawaii (State) agencies assume responsibility for several major functions often performed by local governments; including education, welfare, health and judiciary functions. State agencies are not fiscally dependent on the County and therefore, are not included in these financial statements. There are no separate city, county or township governments nor any school district, special districts, authorities or public corporations with overlapping authority presented in the accompanying financial statements.

The financial statements of the County have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with an election made by the County under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards, which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units. The more significant of these accounting policies are described below.

In June 1999, the GASB issued Statement No. 34 "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments." This Statement provides for the most significant change in financial reporting in over twenty years and requires implementation starting with fiscal years ending after June 15, 2002. As a part of this Statement, there is a new reporting requirement regarding a local government's infrastructure (streets, bridges, traffic signals, etc.) with required implementation for fiscal years ending after June 15, 2006. The County elected to implement the basic model required by GASB Statement No. 34, including infrastructure reporting for the year ended June 30, 2003.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

In June 2001, GASB issued Statement No. 38, "Certain Financial Statement Note Disclosures", which in part, addressed the need to reevaluate certain existing disclosure requirements in the context of the reporting model in Statement No. 34. The County implemented Statement No. 38 in conjunction with Statement No. 34 for the year ended June 30, 2003.

Discretely Presented Component Unit

The component unit column in the financial statements includes the financial data of the County's discretely presented component unit, the Department of Water (Department), which is a semi-autonomous proprietary agency of the County. It is reported in a separate column to emphasize that it is legally separate from the County.

A majority of the members of the Department, the governing body, are appointed by the Mayor and confirmed by the County Council. The Department is granted corporate powers by the County Charter. The County does not have the authority to modify or approve the Department's budgets. Revenue bonds and loans payable of the Department are general obligations of the County. As the County would be obligated to repay these bonds in the event of default by the Department, the County is financially accountable for the debts of the Department. Complete financial statements of the Department may be obtained from the Department of Water, County of Kauai, 4398 Pua Loke Street, Lihue, Kauai, Hawaii 96766.

Government-wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. The new reporting model under Statement No. 34 focuses on the County as a whole in the government-wide financial statements and major individual funds in the fund financial statements. Both types of statements categorize primary activities as governmental or business-type. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. In the statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reflected, on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

The statement of activities reflects the direct expenses of the functional category or segment, which are supported by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means the amounts are determinable. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Significant revenues that are susceptible to accrual are as follows:

- Property taxes collected within sixty days after year-end
- Rents and concessions
- Federal and State financial assistance (to the extent that related expenditures that are eligible for reimbursements have been incurred)
- Interest
- Revenues collected by the State on behalf of the County, such as fuel taxes and transient accommodation taxes

All other revenue items are considered to be measurable and available only when cash is received.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Intergovernmental revenues are susceptible to accrual based on the compliance, legal and contractual requirements of the individual programs. There are essentially two types of these revenues. For one type of revenues, monies must be expended for a specific purpose or project and revenues are recognized to the extent of such expenditures. Revenues of this type are deferred for monies received in advance of expenditures and accrued for expenditures in advance of monies received. For the other type of revenues, monies are virtually unrestricted as to purpose of the expenditure. These resources are reflected as revenues at the time of receipt, or earlier if the susceptible to accrual criteria are met.

Proprietary funds are reported using the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as incurred. All proprietary funds follow applicable GASB guidance or FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 that do not conflict with, or contradict, GASB pronouncements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's enterprise funds are charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The County's fiduciary funds are presented in the fund financial statement by type. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Fund Types

The financial transactions of the County are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund balances, revenues and expenditures/expenses. There are certain minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statement and detailed in the combining section.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

The County has the following fund types:

Governmental Fund Types

The focus of the governmental fund measurement (in the fund financial statements) is upon determination of financial position and changes in financial position (sources, uses and balances of financial resources).

The County's governmental fund types are as follows:

General Fund - The general fund is the general operating fund of the County. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - Special revenue funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Fund - Debt service funds are used to account for the accumulation of resources for, and the payment of, debt principal, interest and related costs.

Capital Projects Fund - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The County maintains three proprietary enterprise funds as well as its discretely presented component unit under the following criteria:

Enterprise Funds - Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises (a) where the intent of the governing body is that the costs (i.e., expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Fiduciary Funds

The County maintains the following fiduciary fund type:

Agency Funds - Agency funds are custodial in nature and are used to receive and disburse funds for an entity/individual, which is not part of the County. Agency funds function as a clearing account and do not measure results of operations.

Cash and Cash Equivalents

The County's cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash on deposit with financial institutions is collateralized in accordance with State statutes.

Investments

The County generally invests in certificates of deposit, repurchase agreements, government agency securities (i.e. Federal Home Loan Bank notes and bonds, Federal Home Loan Mortgage Corporation bonds, and Federal National Mortgage Association notes and bonds) with federally insured financial institutions and mutual funds. Investments are recorded at fair value. The County's investment vehicles are consistent with the investment guidelines contained in the Hawaii Revised Statutes (HRS).

HRS authorize the County to invest, with certain restrictions, in obligations of the State of Hawaii, the United States or agencies of the United States, time certificates of deposit and repurchase agreements with federally insured banks and savings and loan associations authorized to do business in the State of Hawaii.

Real Property Taxes

Real property taxes are assessed and billed annually. The County's real property taxes, which are levied on July 1 and billed on July 20 of each year, are based on assessed valuations as of the previous January 1. Real property taxes are due in two equal installments on August 20 and February 20. Accordingly, all real property taxes receivable as of June 30 are delinquent and are reported as deferred revenue for amounts not collected within 60 days after the fiscal year end in the fund financial statements. A lien for real property taxes attaches as of July 1 of each year.

Receivables

Loans receivable consist of housing rehabilitation loans made with federal funds by the Housing and Community Development Revolving Fund (HCDRF), a special revenue fund. The loans are partially offset by a deferred revenue account. Revenue is recorded and included in intergovernmental revenues when the loans made with federal funds are collected.

Receivables of the Department of Water are recorded as revenue when earned, including charges for services rendered but not billed, net of allowance for doubtful accounts approximating \$760,000.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Receivables for federal and state financial assistance are recorded as revenue, in all fund types, as related expenditures are made.

Real Property Held for Sale

Inventory of real property held for sale consists of dwelling units available for sale and is stated at the lower of cost or net realizable value.

Materials and Supplies

Materials and supplies are stated at the lower of average cost (which approximates the first-in, first-out method) or market.

Restricted Assets

The County sets aside certain resources for the repayment of enterprise fund revenue bonds. These resources are classified as restricted assets on the statement of net assets and balance sheet because their use is limited by bond covenants. The Department sets aside certain resources to fund future capital improvements of the water supply system.

When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted funds first, then unrestricted resources as they are needed.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The County defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one year. The Department defines capital assets as assets with an initial, individual cost of more than \$1,000. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business type activities is included as part of the capitalized value of the asset constructed.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Depreciation on all assets is provided for on the straight-line basis over the following estimated useful lives:

Primary Government

Motor vehicles	3 to 15 years
Furniture and equipment	5 to 20 years
Buildings and improvements	20 to 50 years
Transmission and distribution	25 to 40 years
Infrastructure	30 to 60 years

Component Unit

Motor vehicles	5 to 10 years
Equipment and machinery	5 to 20 years
Buildings and improvements	40 to 50 years
Transmission and distribution equipment	18 to 40 years

Intrafund and Interfund Transactions

Interfund receivables and payables are reported in each fund. Transfers of financial resources between agencies and activities within the same fund, which are recorded as revenues by the transferee and expenditures by the transferor, have been eliminated. Transactions that represent reimbursements to a fund for expenditures or expense initially made from it that are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of expenditures or expenses in the fund reimbursed.

Operating transfers include operating subsidies and authorized transfers from funds receiving revenues to funds that will expend those resources.

Interfund receivables and payables represent borrowing arrangements between governmental fund types that are current interfund loans and expected to be paid off within one year. Advances to and from other funds represent borrowing arrangements between nongovernmental fund types that are noncurrent. All other outstanding current balances between funds are reported as "due to/from other funds."

Net Assets

Net assets comprise the various net earnings (losses) from operating and nonoperating revenues, expenses, operating transfers and contributed capital. Net assets are classified in the following three components: invested in capital assets, net of related debt; restricted; and unrestricted net assets. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and outstanding debt attributable to the acquisition, construction or improvement of those assets. Debt related to unspent proceeds or other restricted cash and investments at year-end are not included in the calculation of the amount invested in capital assets, net of related debt. Restricted net assets consists of

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consist of all other net assets not included in the above categories.

Compensated Absences

Vacation leave and other compensated absences are accrued as a liability as the benefits are earned if the leave is attributable to past service and it is probable that the employees will be compensated for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Vacation pay is recorded as an expenditure in the governmental fund types when the amounts, if any, are expected to be liquidated with expendable available resources. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Sick Leave

Permanent full-time County employees accrue sick leave. Sick leave is calculated based upon current compensation levels. Sick pay can be taken only in the event of illness and is not convertible to pay upon termination of employment. Sick pay is recorded when leave is taken because it does not vest when earned. As a result, no liability for sick pay is recorded in the accompanying financial statements. Accumulated sick leave (including the Department of Water) was approximately \$24.6 million at June 30, 2003.

Capital Leases

Leases that substantially transfer all of the risks and benefits of ownership are accounted for as capital leases. Capital leases are included in capital assets, and, where appropriate, are amortized over the shorter of their economic useful lives or lease terms. The related capital lease obligations are included in long-term liabilities in the government-wide financial statements.

Facility Reserve Charges

The Department of Water assesses a fee to commercial and residential developers based upon the number and size of water meters installed at the respective projects which, together with interest earned thereon, provides for the funding of system capital improvements which are included as reserved for utility plant construction in the statement of net assets. Expenditures of these monies are restricted by the Department of Water ordinances to water supply system capital improvements.

Use of Estimates

The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses/expenditures, and other financing sources and uses during the reported period. Actual results could differ from those estimates.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. Restated Beginning Net Assets

The implementation of GASB Statement No. 34 resulted in the following adjustments to the County's June 30, 2002 net assets for the governmental activities:

	<u>Governmental Activities</u>
Net Assets:	
Fund balances at June 30, 2002, as previously reported by governmental fund type:	
General	\$ 12,382,205
Special revenue	17,611,251
Debt service	3,273,282
Capital projects	<u>23,481,039</u>
Total fund balances at June 30, 2002, as previously reported	56,747,777
 GASB Statement No. 34 adjustments:	
Addition of:	
Net capital assets	414,114,331
Long-term liabilities	(78,673,174)
Accrued interest	<u>(1,239,007)</u>
	<u>334,202,150</u>
Net Assets as of June 30, 2002, as restated	<u>\$ 390,949,927</u>

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

3. Budgets and Budgetary Accounting

Annual appropriated budgets are adopted for the General Fund and the following special revenue funds and enterprise funds:

Special Revenue Funds

Highway Fund
Liquor Fund
Beautification Fund
Criminal Asset Forfeiture Fund
Solid Waste Disposal Fund
Housing and Community Development Revolving Fund

Enterprise Funds

Sewer Fund
Golf Fund
Public Housing Fund

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America except that encumbrances are treated as budgetary expenditures in the year the commitments are made and exclude claims and judgments and landfill closure and post closure liabilities. Annual appropriations, except enterprise funds, lapse at fiscal year end. Project ordinances are adopted for capital projects funds.

The County uses the following procedures in establishing the budgetary data reflected in the financial statements:

- On or before March 15, the Mayor submits a proposed operating and capital projects budget for the year commencing the following July 1 to the County Council. The operating and capital project budgets include proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain citizen comments. The County Council may amend the Mayor's budget.
- On or before June 7 of the fiscal year currently ending, the County Council legally enacts the budget through passage of a budget ordinance.
- Amendments to the enacted budget ordinances may be proposed by the Mayor and enacted by the County Council (under the same procedures prescribed for the enactment of the annual budget ordinance), provided that no amendment increases the aggregate of authorized expenditures to an amount greater than the estimate of available financial resources for the fiscal year.
- The Mayor is authorized to transfer appropriations between programs within a department without County Council approval; however, any transfer that alters the total expenditures of any department must be approved by the County Council.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Formal budgetary integration is employed in the annual operating budgets as a management control device during the year for the General Fund and Special Revenue Funds (except for the Section 8, Plans and Permit Revolving Fund, Special State, Federal Grants and State Grants Fund). Accordingly, budget figures are included in the respective Statement/Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget, and Actual. The capital projects funds budgets were adopted on a project basis and, accordingly, are not included in this presentation.

Formal budgetary integration is also employed for the Sewer, Golf and Public Housing Funds. Accordingly, budget figures are included as additional information in the respective Schedules of Revenues, Expenditures and Changes in Fund Equity - Budget and Actual for these funds.

Formal budgetary integration is not employed for the Debt Service Fund, agency funds and certain special revenue funds, as noted above. Budgetary control for these funds are achieved through bond indentures, contractual or grant provisions, projects oversight and legislation.

Flexible budgeting is employed for the Department of Water. Expenditures may not exceed appropriations at the departmental level. Individual fund budgetary comparisons (by object code, by year of appropriation) are reported in separate budgetary reports, which can be obtained from the County's Director of Finance.

The final budget figures presented include all amendments during the year. Amendments to the budget ordinance for the fiscal year were made in compliance with the procedures described above. Several budget amendments were made during the year.

Encumbrance accounting is employed as an extension of formal budgetary integration in the General Fund and budgeted special revenue funds. Capital projects funds also employ encumbrance accounting to reserve for construction contracts. Actual expenditures on a budgetary basis include current year reserves for encumbrances and exclude payments on prior year encumbrances. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Budgeted deficiencies are funded by the estimated unreserved-undesignated fund balances as of June 30, 2002.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

4. Budget to GAAP Reconciliation

The County's budget is prepared differently from GAAP. Therefore, the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund and Housing and Community Development Revolving Fund is presented on the budgetary basis, using budgetary expenditure categories.

The following is a reconciliation of the differences between the budgetary basis and GAAP basis for the excess of revenues and other sources over expenditures and other uses for the aforementioned financial statements:

	<u>General Fund</u>	<u>Housing and Community Development Revolving Fund</u>
GAAP basis excess of revenues and other financing sources over expenditures and other financing uses	\$ 2,015,696	\$ 464,073
Increase in provision for self-insured claims and judgments	(681,483)	-
Encumbrances of budgeted funds:		
Current year	(2,489,476)	(23,620)
Prior year	2,330,958	238,821
Encumbrances lapsed	(575,203)	(12)
Non-GAAP budgetary basis excess of revenues and other financing sources over expenditures and other financing uses	<u>\$ 600,492</u>	<u>\$ 679,262</u>

5. Cash and Investments

The County maintains a cash and investment pool that is used by all funds including the component unit. Each of the funds' and component unit's portion of this pool are displayed in the accompanying financial statements.

Cash and Cash Equivalents

The County's demand and time certificates of deposits, including those of its fiduciary funds and component unit are categorized below to give an indication of the level of risk assumed at June 30, 2003. Category 1 includes bank balances, which are fully insured or collateralized with securities held by the County or its agent in the County's name. Category 2 includes bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Category 3 includes uninsured and uncollateralized cash.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

The following table presents the County's and Department's cash at June 30, 2003, including restricted cash approximating \$223,000 and \$1,800,000 respectively.

	Category			Bank Balances	Carrying Amount
	1	2	3		
Primary government	\$ 17,150,573	\$ -	\$ -	\$ 17,150,573	\$ 16,737,278
Component unit	5,735,834	-	-	5,735,834	6,006,401
Total	<u>\$ 22,886,407</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,886,407</u>	<u>\$ 22,743,679</u>
Fiduciary funds	<u>\$ 1,310,445</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,445</u>	<u>\$ 1,310,445</u>

Approximately \$500,000 of total bank balances of deposits was covered by federal depository insurance.

Investments

The County pools certain funds for investment purposes. The following table presents the County's investments at June 30, 2003, including the restricted investments of its component unit approximating \$9.2 million, and provide information about the credit and market risks associated with the County's investments. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes investments which are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the County's name.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Investment balances at June 30, 2003 were as follows:

	Category			Reported Amount/ Fair Value
	1	2	3	
Primary government:				
U.S. treasury certificates of deposits	\$ 2,750,000	\$ -	\$ -	\$ 2,750,000
Repurchase agreements	1,512,273	-	-	1,512,273
Federal agency securities	12,688,769	-	-	12,688,769
Total	<u>\$ 16,951,042</u>	<u>\$ -</u>	<u>\$ -</u>	16,951,042
Investments not subject to categorization:				
Mutual funds				14,917,353
Total investments				<u>\$ 31,868,395</u>
Component Unit:				
U.S. treasury certificates of deposits	\$ 289,000	\$ -	\$ -	\$ 289,000
Repurchase agreements	4,285,000	-	-	4,285,000
Federal agency securities	12,974,399	-	-	12,974,399
Total	<u>\$ 17,548,399</u>	<u>\$ -</u>	<u>\$ -</u>	17,548,399
Investments not subject to categorization:				
Mutual funds				4,500,000
Total investments				<u>\$ 22,048,399</u>
Fiduciary Funds:				
Repurchase agreements	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ -</u>	250,000
Investments not subject to categorization:				
Mutual funds				400,000
Total investments				<u>\$ 650,000</u>

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

6. RECEIVABLES

Receivables as of June 30, 2003, for the County's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental activities:

	General Fund	Housing and Community Development Revolving Fund	Federal Grants Fund	Other Governmental Funds	Total
Current receivables:					
Real property taxes	\$ 1,162,475	\$ -	\$ -	\$ -	\$ 1,162,475
Accounts receivable:					
Solid Waste	-	-	-	235,288	235,288
Highway	-	-	-	15,766	15,766
Other	25,845	-	-	-	25,845
Intergovernmental	905,871	-	3,724,599	9,071,889	13,702,359
Interest	102,464	-	-	15,050	117,514
Total	2,196,655	-	3,724,599	9,337,993	15,259,247
Less: allowance for uncollectible taxes	(238,124)	-	-	-	(238,124)
Total current receivables, net	1,958,531	-	3,724,599	9,337,993	15,021,123
Non-current receivables—					
Loans receivable	-	23,712,741	-	60,623	23,773,364
Total receivables, net	\$ 1,958,531	\$ 23,712,741	\$ 3,724,599	\$ 9,398,616	\$ 38,794,487

Business-type activities:

	Enterprise Funds
Accounts receivable:	
Sewer charges	\$ 2,222,959
Loans	41,819
Interest	3,591
Total receivables	2,268,369
Less: allowance for uncollectible sewer charges	(557,580)
Total receivables, net	\$ 1,710,789

The only receivables not expected to be collected within one year are approximately \$22.2 million of the loans receivable of the governmental activities which are generally due to the County on various dates through 2062.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

7. Capital Assets

Capital asset activity for the year ended June 30, 2003 was as follows:

	Primary Government		
	Balance July 1, 2002	Increases	Decreases
Governmental Activities:			
Capital assets, not being depreciated:			
Land	\$ 151,526,816	\$ 3,006,943	\$ -
Construction in Progress	25,785,644	16,241,657	(3,629,479)
Total capital assets not being depreciated	177,312,460	19,248,600	(3,629,479)
Capital assets, being depreciated:			
Buildings and improvements	45,717,779	4,133,271	(468,608)
Machinery and equipment	24,160,803	6,520,914	(1,951,986)
Infrastructure	578,398,081	5,768,225	-
Total capital assets being depreciated	648,276,663	16,422,410	(2,420,594)
Less Accumulated Depreciation:			
Buildings and improvements	(10,347,558)	(1,069,964)	181,683
Machinery and equipment	(18,361,468)	(2,249,622)	1,026,770
Infrastructure	(382,765,766)	(5,276,053)	-
Total accumulated depreciation	(236,801,871)	(7,826,771)	1,208,453
Governmental activities - capital assets, net	\$ 414,114,331	\$ 27,075,371	\$ (4,841,620)
Business-type Activities:			
Capital assets not being depreciated--			
Land	\$ 2,585,600	\$ -	\$ -
Capital assets, being depreciated:			
Buildings and improvements	58,562,823	55,958	-
Machinery and equipment	2,634,341	108,438	(203,482)
Infrastructure	8,879,025	-	-
Total capital assets being depreciated	70,076,189	164,396	(203,482)
Less Accumulated Depreciation:			
Buildings and improvements	(17,093,256)	(1,445,029)	-
Machinery and equipment	(1,296,755)	(494,649)	203,482
Infrastructure	(5,751,360)	(84,877)	-
Total accumulated depreciation	(24,141,371)	(2,024,555)	203,482
Business-type activities - capital assets, net	\$ 48,520,418	\$ 1,860,159	\$ -

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:		
General government	\$	357,798
Public safety		1,091,619
Public works		1,158,739
Highways and streets		5,506,103
Public welfare		195,190
Culture and recreation		123,118
Sanitation		163,072
Total depreciation expense – governmental activities	\$	8,595,639
Business-type activities:		
Sewer	\$	1,299,492
Public Housing		542,349
Golf		182,714
Total depreciation expense – business-type activities	\$	2,024,555

	Component Unit			
	Balance July 1, 2002	Increases	Decreases	Balance June 30, 2003
<u>Discretely Presented Component Unit:</u>				
Capital assets, not being depreciated:				
Land	\$ 385,396	\$ -	\$ -	\$ 385,396
Construction in Progress	9,864,466	11,382,202	(9,324,916)	11,921,752
Total capital assets not being depreciated	10,249,862	11,382,202	(9,324,916)	12,307,148
Capital assets, being depreciated:				
Buildings and improvements	4,141,894	396,189	-	4,538,083
Machinery and equipment	3,729,042	327,318	(17,287)	4,039,073
Infrastructure	113,241,603	7,934,201	(227,285)	120,948,519
Total capital assets being depreciated	121,112,539	8,657,708	(244,572)	129,525,675
Less Accumulated Depreciation:				
Buildings and improvements	(461,753)	(103,162)	-	(564,915)
Machinery and equipment	(2,271,932)	(403,263)	17,288	(2,657,907)
Infrastructure	(40,254,443)	(3,281,309)	227,314	(43,308,438)
Total accumulated depreciation	(42,988,128)	(3,787,734)	244,602	(46,531,260)
Component Unit – capital assets, net	\$ 88,374,273	\$ 16,252,176	\$ (9,324,886)	\$ 95,301,563

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

8. INTERFUND RECEIVABLES/PAYABLES

The due from/to other funds consists of the following as of June 30, 2003:

Receivable Fund	Payable Fund	Amount
Due from/to Other Funds		
Nonmajor governmental funds	General Fund	\$ 3,797,974
General	Federal Grants Fund	1,691,756
General	Nonmajor governmental funds	6,927,004
		<u>\$ 12,416,734</u>

There are no interfund balances that are not expected to be repaid by June 30, 2004.

Operating Transfers

Transfers for the fiscal year ended June 30, 2003 consisted of the following:

	Transfer out:		
	General Fund	Nonmajor Governmental Funds	Total
Transfer in:			
General Fund	\$ -	\$ 903,000	\$ 903,000
Nonmajor governmental funds	10,371,213	1,500,000	11,871,213
Proprietary funds	189,138	-	189,138
	<u>\$ 10,560,351</u>	<u>\$ 2,403,000</u>	<u>\$ 12,963,351</u>

There are no significant transfers that either do not occur on a routine basis or are inconsistent with the fund making the transfer.

9. Capital Leases

The County leases machinery and equipment under non-cancellable leases expiring at various dates through November 2009 which meet the criteria for capitalization. These capital leases are financed from general fund resources.

The estimated value of the leased machinery and equipment at the inception of the leases net of accumulated depreciation, amounting to \$4,527,050 and \$1,712,378, respectively, and the related present value of the remaining obligations under the capital leases amounting to \$1,788,990 at June 30, 2003 are included in the capital assets and long-term liabilities, respectively.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

The future minimum obligations under capital leases at June 30, 2003 are as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 697,000	\$ 62,000	\$ 759,000
2005	517,000	34,000	551,000
2006	233,000	19,000	252,000
2007	158,000	11,000	169,000
2008	90,000	6,000	96,000
2009 - 2013	93,990	3,536	97,526
	<u>\$ 1,788,990</u>	<u>\$ 135,536</u>	<u>\$ 1,924,526</u>

10. Long-Term Debt

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Approximate amounts due within one year
Governmental Activities:					
Bonds payable--					
General obligation bonds	\$ 55,070,000	\$ -	\$ 3,490,000	\$ 51,580,000	\$ 3,665,000
Claims and judgments	820,993	1,883,492	885,180	1,819,305	215,000
Landfill closure and postclosure	17,428,494	996,956	300,000	18,125,450	300,000
Capital lease obligations	1,470,046	1,181,751	862,807	1,788,990	697,000
Compensated absences	7,619,309	3,632,574	2,729,168	8,522,715	2,419,000
Governmental activities, long-term liabilities	<u>\$ 82,408,842</u>	<u>\$ 7,694,773</u>	<u>\$ 8,267,155</u>	<u>\$ 81,836,460</u>	<u>\$ 7,296,000</u>
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 2,165,000	\$ -	\$ 100,000	\$ 2,065,000	\$ 100,000
Revenue bonds	1,530,000	-	110,000	1,420,000	120,000
Total bonds payable	3,695,000		210,000	3,485,000	220,000
Loans payable to state governments	11,230,368	-	805,771	10,424,597	828,000
Compensated absences	315,854	162,658	137,334	341,178	30,000
Business-type Activities, long-term liabilities	<u>\$ 15,241,222</u>	<u>\$ 162,658</u>	<u>\$ 1,153,105</u>	<u>\$ 14,250,775</u>	<u>\$ 1,078,000</u>
Discretely Presented Component Unit:					
Bonds payable--					
General obligation bonds	\$ 11,465,500	\$ -	\$ 295,000	\$ 11,170,500	\$ 305,500
Loans payable to state governments	1,610,522	-	36,748	1,573,774	75,000
Compensated absences	757,479	312,019	200,019	869,479	202,000
Component Unit, long-term liabilities	<u>\$ 13,833,501</u>	<u>\$ 312,019</u>	<u>\$ 531,767</u>	<u>\$ 13,613,753</u>	<u>\$ 582,500</u>

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

General Obligation Bonds

The County issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. These bonds have been issued by the County for both primary government and component unit activities. General obligation bonds payable reported on the government-wide statement of net assets at June 30, 2003 are comprised of the following individual issues:

Governmental Activities

General obligation bonds, 2001 Series A, original amount \$33,635,000, due in annual installments of \$2,343,868 to \$2,413,750 from August 2001 through August 2024, interest payment semi-annually from 4% to 5.625%.	\$ 31,760,000
General obligation taxable bonds, 2000 Series B, original amount \$2,820,000, due in annual installments of \$115,000 to \$325,000 from August 2001 through August 2014, interest payment semi-annually from 8% to 8.10%.	2,580,000
General obligation refunding bonds, 1997 Series A, original amount \$3,655,000, due in annual installments of \$450,000 to \$595,000 through August 2004, interest payment semi-annually from 4% to 4.55%.	1,160,000
General obligation refunding bonds, 1994 Series A, original amount \$8,225,000, due in annual installments of \$45,000 to \$1,010,000 through February 2007, interest payment semi-annually from 3.75% to 5.7%.	3,735,000
General obligation refunding bonds, 1992 Series B and C, original amount \$20,120,000, due in annual installments of \$215,000 to \$1,790,000 through August 2010, interest payment semi-annually from 2.6% to 5.95%.	12,345,000
Total	\$ 51,580,000

Business-type Activities

General obligation refunding bonds, 1997 Series B, original amount \$2,420,000, due in annual installments of \$90,000 to \$195,000 through August 2017, interest payment semi-annually from 4.05% to 5.25%.	\$ 2,065,000
--	---------------------

Annual requirements to amortize primary government general obligation bonds payable as of June 30, 2003 are approximately as follows:

Year Ending June 30,	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 3,665,000	\$ 2,726,000	\$ 100,000	\$ 100,000	\$ 3,765,000	\$ 2,826,000
2005	3,850,000	2,535,000	100,000	95,000	3,950,000	2,630,000
2006	3,435,000	2,341,000	100,000	91,000	3,535,000	2,432,000
2007	3,630,000	2,149,000	110,000	86,000	3,740,000	2,235,000
2008	2,755,000	1,947,000	115,000	81,000	2,870,000	2,028,000
2009 - 2013	10,955,000	7,619,000	670,000	313,000	11,625,000	7,932,000
2014 - 2018	7,455,000	5,219,000	870,000	118,929	8,325,000	5,337,929
2019 - 2023	9,110,000	2,947,000	-	-	9,110,000	2,947,000
2024 - 2028	6,725,000	514,682	-	-	6,725,000	514,682
	\$ 51,580,000	\$ 27,997,682	\$ 2,065,000	\$ 884,929	\$ 53,645,000	\$ 28,882,611

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Component Unit

County Series 2001A, last installment 2025. Maturing serially from August 1, 2001. Interest rate - 4% to 5.625%. Issued May 15, 2001. Original amount - \$11,725,000

\$ 11,005,000

County Series 1980, last installment 2015. Maturing serially from March 1, 1983. Interest rate - 5%. Issued April 7, 1980. Original amount - \$300,000.

165,500

Total

\$ 11,170,500

Annual requirements to amortize component unit general obligation bonds payable as of June 30, 2003 are approximately as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 305,500	\$ 559,000	\$ 864,500
2005	321,000	547,000	868,000
2006	331,500	532,000	863,500
2007	347,000	517,000	864,000
2008	362,500	502,000	864,500
2009 - 2013	2,043,000	2,261,000	4,304,000
2014 - 2018	2,330,000	1,679,000	4,009,000
2019 - 2023	2,955,000	955,000	3,910,000
2024 - 2028	2,175,000	166,047	2,341,047
Total	<u>\$ 11,170,500</u>	<u>\$ 7,718,047</u>	<u>\$ 18,888,547</u>

General obligation bonds are direct obligations of the County. The County has pledged its full faith and credit. Additionally the Department has pledged to maintain and collect revenues sufficient to pay all operating costs and to pay the principal and interest on such bonds as they become due.

In prior years, the County and the Department defeased certain general obligation bonds by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. At June 30, 2003, approximately \$24 million of primary government and \$5.5 million of Department general obligation bonds outstanding are considered defeased.

Revenue Bonds

Revenue bonds are direct obligations where the County pledges income derived from acquired or constructed assets to pay debt service.

At June 30, 2003, the long-term debt of the Public Housing Enterprise Fund comprised approximately \$1.4 million of 1992 series Rental Housing revenue bonds (original amount \$4.2 million) which are due in annual installments of \$95,000 to \$205,000 through April 2012. Interest on bonds are payable semi-annually at 7.25%.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Annual requirements to retire revenue bonds payable at June 30, 2003 are approximately as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 120,000	\$ 103,000	\$ 223,000
2005	125,000	94,000	219,000
2006	135,000	85,000	220,000
2007	145,000	75,000	220,000
2008	155,000	65,000	220,000
2009 - 2013	740,000	139,513	879,513
	<u>\$ 1,420,000</u>	<u>\$ 561,513</u>	<u>\$ 1,981,513</u>

Loans Payable

Business-type Activities

The County has a construction loan agreement with the State of Hawaii totaling approximately \$2.6 million to fund a portion of the construction cost of the Kapaa wastewater treatment plant. Principal interest and loan fee payments are due quarterly in equal installments of \$46,272. Interest is accrued at 3.5% per annum. The loan was interest free during the period of construction. Principal balance at June 30, 2003 was \$1,758,436.

During fiscal 1995, the County entered into an additional construction loan agreement with the State of Hawaii totaling approximately \$700,000 to fund a change order related to the Kapaa wastewater treatment plant. Principal, interest and loan fee payments are due in semi-annual installments of \$23,925. Interest is accrued at 3.06% per annum. Principal balance at June 30, 2003 was \$449,228.

During fiscal 1993, the County entered into a construction loan agreement with the State of Hawaii totaling approximately \$14.1 million to fund a portion of the construction cost of the Lihue Wastewater, Phase IV project. A supplemental loan agreement reduced the principal amount to approximately \$13.4 million. Principal, interest and loan fee payments are due in quarterly installments of \$239,699. Interest is accrued from the date of the State-issued warrant (March 7, 1994) or check for each subsequent loan amount disbursed to the County at 3.78% per annum. Principal balance at June 30, 2003 was approximately \$8,216,933.

The construction loans are general obligation debt of the County that do not specify a dedicated revenue source to be used for repayment of the loans. The construction of each of these plants was completed during fiscal year 1997. The County determined that the funding source for repayment of these loans will be the Sewer Enterprise Fund.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Annual requirements to retire loans payable as of June 30, 2003 are approximately as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 828,000	\$ 364,000	\$ 1,192,000
2005	850,000	342,000	1,192,000
2006	874,000	318,000	1,192,000
2007	898,000	295,000	1,193,000
2008	922,000	270,000	1,192,000
2009 - 2013	5,003,000	956,000	5,959,000
2014 - 2018	1,049,597	108,606	1,158,203
	<u>\$ 10,424,597</u>	<u>\$ 2,653,606</u>	<u>\$ 13,078,203</u>

Component Unit

On July 15, 2001 the Department of Water entered in to a loan agreement with the Department of Health (DOH), State of Hawaii for approximately \$1.7 million to repair damages to the Kokolau Tunnel under the Safe Drinking Water Act. Under the terms of the loan agreement the Department incurs the cost related to the project and submits a request for reimbursement to the DOH.

State Revolving Fund Loan –

Kokolau Tunnel, last installment 2021. Maturing serially from July 15, 2001.

Interest rate – 1.37%. Semi-annual loan fee rate – 1.625%. Date issued -

July 15, 2001. Original amount - \$1,755,329

\$ 1,573,774

Annual requirements to retire the notes payable as of June 30, 2003 are approximately as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 75,000	\$ 72,000	\$ 147,000
2005	76,000	68,000	144,000
2006	77,000	65,000	142,000
2007	78,000	61,000	139,000
2008	79,000	58,000	137,000
2009 - 2013	414,000	232,000	646,000
2014 - 2018	443,000	133,000	576,000
2019 - 2023	331,774	30,166	361,940
	<u>\$ 1,573,774</u>	<u>\$ 719,166</u>	<u>\$ 2,292,940</u>

On April 15, 2002 the Department entered into a loan agreement with the DOH, State of Hawaii, for approximately \$1.1 million to provide capacity to pump potable water from the Kekaha Water System to the Waimea Water System under the Safe Water Drinking Act. The Department pays annual interest of 1.01% and a semi-annual loan fee of 1.625% of the outstanding principal balance. Under the terms of the loan agreement the Department incurs the cost related to the project and submits a request for reimbursement to the DOH. As of June 30, 2003, the Department has not received reimbursements from the DOH.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

11. Employee Benefit Plans

Pension

Substantially all eligible employees of the County (including the Department of Water) are members of the Employees' Retirement System of the State of Hawaii (ERS), a cost-sharing multiple-employer defined benefit pension plan. The ERS provides retirement benefits as well as death and disability benefits. HRS Section 88 establishes or amends benefit provisions. Prior to June 30, 1984, the plan consisted of only a contributory option. In 1984, legislation was enacted to add a new noncontributory option for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are precluded from the noncontributory option. The noncontributory option provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory option or to elect the new contributory option and receive a refund of employee contributions. Both options provide for a monthly retirement allowance based on the employee's age, years of credited service, and average final compensation ("AFC"). The AFC is the average salary earned during the five highest paid years of service, including the vacation payment, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after that date and prior to January 1, 2003 is based on the three highest paid years of service, excluding the vacation payment. Effective January 1, 2003, the AFC is the highest three calendar years or highest five calendar years plus lump sum vacation payment or, highest three school contract years, or last 36 credited months or last 60 credited months plus lump sum vacation payment. All benefits vest after five and ten years of credited service under the contributory and noncontributory options, respectively. Members, except police and firefighters, under the contributory option contribute at a rate of 7.8% of their salary. Members who are police officers or firefighters have a mandatory contribution rate of 12.2% of their salary.

The ERS provides basic pension benefits to individuals receiving pensions. Employer contributions to the ERS are comprised of normal cost plus level annual payments required to liquidate the unfunded accrued liability over the closed period ending June 30, 2029. The ERS uses the Entry Age Normal Actuarial Cost method to calculate the unfunded accrued liability.

The County's (including the Department of Water) payroll for employees covered by the plan for the year ended June 30, 2003 was approximately \$43.9 million. The total payroll for the County's employees for the year ended June 30, 2003 was approximately \$45.6 million. The County is required to contribute an actuarially determined amount to the ERS. Contributions made to the ERS by the County and employees for the year ended June 30, 2003 were approximately \$2.3 million and \$2.0 million, respectively. The County's actuarially determined contribution is 1.23% of the total current year actuarially determined contribution requirements for all employers. The contributions represented 5.3% and 4.6% of covered payroll, respectively. The County's contributions to ERS for fiscal years 2003, 2002 and 2001 of approximately \$2.3 million, \$3.3 million and \$95,300, respectively, were equal to the required contributions for each year.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

ERS issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information which may be obtained from the following address:

Employees' Retirement System of the State of Hawaii
201 Merchant Street, Suite 1400
Honolulu, Hawaii 96813

The following data was obtained from the disclosures contained in the CAFR for the year ended June 30, 2002:

Number of employers as of March 31, 2002 was

State	1
Counties	<u>4</u>
Total employers	<u>5</u>

Basis of Accounting - The financial statements of the ERS are prepared using the accrual basis of accounting. Employer and member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Plan investments are reported at fair value. Where appropriate, the fair value includes disposition costs. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments and real estate owned are based on independent appraisals and estimated values. Investments that do have an established market are reported at estimated fair value.

Post-Retirement Benefits

The County is required by the State to contribute to the Public Employees' Health Fund (the Fund), a state-wide program which provides health and group life insurance for all retired and active County employees, their dependents and their beneficiaries totaling approximately 3,900 participants, which included approximately 800 retirees and their dependents and beneficiaries. The State and other counties also participate in the Fund. The County's contribution is recorded as an expenditure when paid; the amount of the contribution is limited by State statute to the actual costs of benefit coverage. During fiscal year 2003, the County contributed approximately \$7.2 million to the Fund, which included contributions of approximately \$3.5 million for retirees and their dependents and beneficiaries.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Deferred Compensation Plan

The County has a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code Section 457. The Plan, available to all employees, permits them to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Small Business Job Protection Act of 1996 requires that all plan assets and income be placed in trust, custodial account or annuity contract for the exclusive benefit of the participants and their beneficiaries.

The County has met the requirements for the Small Business Job Protection Act of 1996 for its Internal Revenue Code Section 457 plan and in accordance with the criteria set forth in the GASB Statement No. 32, "Accounting and Financial Reporting Code Section 457 Deferred Compensation Plans," the County has excluded the plan assets and liabilities from the government-wide financial statements because the County does not have significant administrative involvement in the plan or perform the investment function for the plan. All such amounts are not subject to the claims of the County's general creditors.

12. Commitments and Contingencies

Claims and Judgments

The County is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County maintains certain comprehensive general liability and property insurance, public official and law enforcement liability insurance, and excess auto liability insurance for claims. It is the opinion of management and legal counsel that such claims and lawsuits are either covered by the County's insurance policies, if they should exceed the County's retained risk, or are recorded in the government-wide financial statements. There was no reduction in insurance coverage during the year from coverage in the prior year. During the past three fiscal years, the amount of settlements in cases covered by insurance have not exceeded the insurance coverage. The County is substantially self-insured for its vehicles as well as for all other perils including workers' compensation and general liability below \$500,000.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities, including IBNR, are based on the estimated ultimate cost of settling the claims, and include incremental costs for the hiring of special counsel and expert witnesses. Claims liabilities are estimated by a case-by-case review of all claims and the application of historical experience to outstanding claims. Estimates of IBNR are based on historical experience. The liability for claims and judgments is reported on the government-wide statement of net assets. At June 30, 2003, the amount of this liability was approximately \$1.8 million. This is the County's best estimate based on available information. Changes in the reported liability since July 1, 2001 are given below.

Fiscal Year	Liability at Beginning of Year	Current Year Claims and Changes in Estimates	Claim Payments	Liability at End of Year
2002	\$ 820,993	\$ 185,797	\$ (185,797)	\$ 820,993
2003	\$ 820,993	\$ 1,883,492	\$ (885,180)	\$ 1,819,305

Purchase Commitments

Contractual commitments for capital projects, supplies and other expenditures at June 30, 2003, except those expected to be paid through reimbursable grants, are reflected in the governmental fund financial statements as fund balance reserved for encumbrances.

13. Landfill Closure and Post-closure Care Costs

GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs," which is based on the October 9, 1991 United States Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria," establishes closure requirements for all municipal solid waste landfills that receive waste after October 9, 1991. In accordance with GASB Statement No. 18, the County estimates in advance the total cost of closure and post-closure care during the life of those landfills rather than after their closings. Federal and state laws and regulations require the County to place final covers on certain landfill sites when they stop accepting waste and to perform certain maintenance and monitoring functions at the sites for thirty years after closure. Annual additions to the liability for closure and post-closure care costs are based on landfill capacity used as of each balance sheet date.

The County has three landfill sites - Kekaha Landfill Phases I and II and Halehaka Landfill. The County has closed the Kekaha Landfill Phase I and Halehaka Landfill. The County estimates the closure costs for the Kekaha Landfill Phase II to be approximately \$7.5 million based on estimates provided by project engineers. At June 30, 2003, approximately 94% of the total capacity of the Kekaha Landfill Phase II had been used, and the estimated remaining landfill life is approximately one year. The County is currently

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

seeking approval for expansion of Kekaha Landfill Phase II. The proposed expansion is estimated to extend the life of the landfill by approximately four years.

The total estimated closure costs accrued in the government-wide financial statements for the Kekaha Landfill Phase II, and the post-closure costs for the Kekaha Landfill Phases I and II and Halehaka Landfill was approximately \$18.1 million, which may change due to inflation, technology or applicable laws or regulations. However, the total estimated closure costs for the Kekaha Landfill Phase II, and the postclosure costs for the Kekaha Landfill Phases I and II and Halehaka Landfill is approximately \$18.6 million. Therefore, as of June 30, 2003, approximately \$500,000 remains to be accrued in subsequent periods.

The County is required by state and federal laws and regulations to assure that the funds for corrective action closure and postclosure care will be available when needed. The County charges commercial businesses a tipping fee for each ton of waste deposited at the Kekaha Landfill Phase II. The tipping fees will be used to offset the cost of closing the landfill. As of June 30, 2003 the County has collected approximately \$2.8 million in tipping fees and includes this amount in the Solid Waste Fund under landfill closure and postclosure cost. As of June 30, 2003, the County met applicable financial assurance requirements specified in 40 CFR Section 258.

14. Component Unit Disclosures

Safe Drinking Water Act

The Department is subject to the requirements of the Safe Drinking Water Act (the Act) which is administered by the State of Hawaii Department of Health on behalf of the United States Environmental Protection Agency. Management indicated that the Department is in full compliance with the requirements of the Act and is not aware of any matters under the Act that materially affected or is currently affecting the Department's customer service area.

Water System Matters

The Department has encountered water system capacity issues in certain customer service areas. In addition, the Department's water system infrastructure in certain areas requires significant upgrades or rehabilitation. The Department has evaluated these matters in connection with the development of their long-range plan, Water Plan 2020, and a water system rehabilitation plan. Water Plan 2020 was approved in March of 2001 and resulted in an approved rate increase as of July 1, 2001 which will provide the necessary resources to maintain water facilities, increase service and also help with water conservation. In addition to the rate increase effective July 1, 2001, another rate increase was to take effect on July 1, 2003, however on April 16, 2003, the Board of Water Supply approved an amendment to defer the rate increase for one year, from July 1, 2003 to July 1, 2004.

County of Kauai, Hawaii

Comprehensive Annual Financial Report For the Year Ended June 30, 2003

15. Collective Bargaining Agreements

County employees are members of seven different bargaining units. All seven bargaining units have contracts that expired on June 30, 2003. The police officers union (SHOPO) has signed a four year contract for its members with wage increases averaging four percent per year starting July 1, 2003. Other employee union collective bargaining negotiations are in process or are in arbitration.

16. Related Party Transactions

The Department charges the County for fire protection services (hydrant use) at agreed-to rates that approximate the costs for such services. The County provides certain services to the Department and charges the Department for these services at an amount equal to the charge for fire protection services. The amounts charged approximated \$436,000 for the year ended June 30, 2003.

17. New Pronouncements for Financial Reporting

The Governmental Accounting Standards Board (GASB) has issued Statement No. 40, "Deposit and Investment Risk Disclosures," which updates the custodial credit risk disclosure requirements of GASB Statement No. 3 and establishes more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments and is effective for financial statements for the period beginning June 15, 2004. This Statement is not expected to have a material impact on the financial statements.

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

For a brief explanation of the individual funds, please refer to the divider page for the Governmental Fund Financial Statements preceding page 23 and the divider page for the Proprietary Fund Financial Statements preceding page 32.

COUNTY OF KAUAI

Combining Balance sheet
Nonmajor Governmental Funds
June 30, 2003

	Special Revenue Funds							
	Highway	Liquor	Beautification	Criminal Assets Forfeiture	Special State Grant	Solid Waste Disposal	Plans and Permit Revolving	State Grants
ASSETS								
Cash	\$ 212,535	\$ 252,406	\$ 407,389	\$ 446,333	\$ 5,000	\$ 635,810	\$ 98,041	\$ 299,736
Investments	2,080,450	100,000	-	512,273	-	3,076,096	-	-
Receivables, net	22,543	1,419	-	992	-	236,657	-	-
Due from other funds	-	-	-	-	-	132,974	-	-
Due from other governments	414,088	-	-	-	-	-	-	795,803
Loans receivable	-	-	-	-	-	-	-	60,623
Prepaid items	-	-	-	-	-	-	-	508,183
Total assets	\$ 2,729,616	\$ 353,825	\$ 407,389	\$ 959,598	\$ 5,000	\$ 4,081,537	\$ 98,041	\$ 1,095,539
LIABILITIES								
Accounts payable	\$ 169,512	\$ 18,371	\$ 47,972	\$ -	\$ -	\$ 308,075	\$ 30,504	\$ 219,527
Retainage payable	-	-	-	1,409	-	30,256	-	58
Due to other funds	-	-	-	-	-	-	-	6,315
Deferred revenue	-	96,792	-	-	-	3,652	-	869,639
Landfill closure and postclosure cost	-	-	-	-	-	2,847,011	-	-
Total liabilities	169,512	115,163	47,972	1,409	-	3,188,994	30,504	1,095,539
FUND BALANCE								
Reserved for:								
Encumbrances	330,142	21,661	105,482	-	-	892,543	100	-
Prepaid items	-	-	-	-	-	-	-	-
Loans receivable	-	-	-	-	-	-	-	-
Debt service	-	-	-	-	-	-	-	-
Unreserved - designated	-	-	-	-	-	-	-	-
Unreserved - unrestricted	2,229,962	217,001	253,935	958,189	5,000	-	67,437	-
Total fund balance	2,560,104	238,662	359,417	958,189	5,000	892,543	67,537	-
Total Liabilities and Fund Balance	\$ 2,729,616	\$ 353,825	\$ 407,389	\$ 959,598	\$ 5,000	\$ 4,081,537	\$ 98,041	\$ 1,095,539

(continued)

COUNTY OF KAUAI

Combining Balance sheet
Nonmajor Governmental Funds
June 30, 2003

	Capital Projects Funds								Total Nonmajor Governmental Funds
	Parks & Playgrounds	Sewer Trust	Development	Bikeway CIP	Special State CIP	General CIP	Highway CIP	Grants CIP	
ASSETS									
Cash	\$ 302,691	\$ 634,915	\$ 176,354	\$ 64,248	\$ 8,058	\$ 2,650,259	\$ 2,945,851	\$ -	\$ 10,024,500
Investments	798,000	-	494,995	-	-	-	-	-	7,061,814
Receivables, net	4,493	-	-	-	-	-	-	-	266,104
Due from other funds	-	-	-	-	-	-	-	-	3,797,974
Due from other governments	-	-	-	-	-	-	-	7,403,842	9,071,889
Loans receivable	-	-	-	-	-	-	-	-	60,623
Prepaid items	-	-	-	-	-	-	-	-	508,183
Total assets	\$ 1,105,184	\$ 634,915	\$ 671,349	\$ 64,248	\$ 8,058	\$ 2,650,259	\$ 2,945,851	\$ 7,403,842	\$ 30,791,087
LIABILITIES									
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,572	\$ 2,093	\$ 572,042	\$ 1,564,455
Retainage payable	-	4,247	-	-	-	26,511	21,394	222,152	306,027
Due to other funds	-	-	-	-	-	-	-	6,367,689	6,927,004
Deferred revenue	-	-	-	-	-	-	-	241,959	1,212,042
Landfill closure and postclosure cost	-	-	-	-	-	-	-	-	2,847,011
Total liabilities	-	4,247	-	-	-	65,083	23,487	7,403,842	12,856,539
FUND BALANCE									
Reserved for:									
Encumbrances	-	100,730	-	-	-	1,329,983	326,614	-	3,119,241
Prepaid items	-	-	-	-	-	-	-	-	508,183
Loans receivable	-	-	-	-	-	-	-	-	60,623
Debt service	-	-	-	-	-	-	-	-	3,665,000
Unreserved - designated	633,175	285,506	13,686	54,484	8,058	1,255,193	2,570,750	-	4,820,852
Unreserved - unrestricted	472,009	244,432	657,663	9,764	-	-	25,000	-	5,760,649
Total fund balance	1,105,184	630,668	671,349	64,248	8,058	2,585,176	2,922,364	-	17,934,548
Total Liabilities and Fund Balance	\$ 1,105,184	\$ 634,915	\$ 671,349	\$ 64,248	\$ 8,058	\$ 2,650,259	\$ 2,945,851	\$ 7,403,842	\$ 30,791,087

(concluded)

COUNTY OF KAUAI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds For the Fiscal Year Ended June 30, 2003

	Special Revenue Funds							
	Highway	Liquor	Beautification	Criminal Assets Forfeiture	Special State Grant	Solid Waste Disposal	Plans and Permits Revolving	State Grants
Revenues:								
Taxes	\$ 6,144,874	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	3,184,788	644,286	318,279	-	-	-	156,252	-
Rents & concessions	-	-	-	-	-	9,600	-	-
Interest	38,431	4,466	-	8,891	-	164,678	-	1,348
Intergovernmental revenues	32,361	-	-	384,044	-	-	-	7,437,289
Charges for current services	-	-	-	-	-	2,436,675	-	-
Miscellaneous	3,141	16,054	-	-	-	-	-	7,976
Total revenues	9,403,595	664,806	318,279	392,935	-	2,610,953	156,252	2,478,527
Expenditures:								
General government	-	-	-	-	-	-	171,502	1,286,428
Public safety	-	601,222	-	88,461	-	-	-	181,555
Public works	-	-	-	-	-	-	-	106,250
Highways & streets	7,051,060	-	214,080	-	-	-	-	-
Sanitation	-	-	-	-	-	6,293,146	-	211,509
Culture & recreation	-	-	-	-	-	-	-	123,360
Public welfare	-	-	-	-	-	-	-	569,425
Capital outlay	-	-	-	-	-	-	-	-
Debt Service:	-	-	-	-	-	-	-	-
Principal	-	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-	-
Total expenditures	7,051,060	601,222	214,080	88,461	-	6,293,146	171,502	2,478,527
Excess (deficiency) of revenues over expenditures	2,352,535	63,584	104,199	304,474	-	(3,682,193)	(15,250)	-
Other financing sources (uses):								
Operating transfers in	-	-	-	-	-	3,583,349	-	-
Operating transfers out	(1,850,000)	-	-	-	-	-	-	(553,000)
Total other financing sources (uses)	(1,850,000)	-	-	-	-	3,583,349	-	(553,000)
Net change in fund balances	502,535	63,584	104,199	304,474	-	(98,844)	(15,250)	-
Fund balance, July 1	2,057,569	175,078	255,218	653,715	5,000	991,387	82,787	-
Fund balance, June 30	\$ 2,560,104	\$ 238,662	\$ 359,417	\$ 958,189	\$ 5,000	\$ 892,543	\$ 67,537	\$ -

(continued)

COUNTY OF KAUAI

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds For the Fiscal Year Ended June 30, 2003

	Capital Projects Funds						Debt Service	Total Nonmajor Governmental
	Parks and Playgrounds	Sewer Trust	Development	Bikeway	Special State	General		
				CIP	CIP	CIP	Fund	Funds
Revenues:								
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,144,874
Licenses and permits	-	-	-	4,790	-	-	-	4,308,395
Rents & concessions	-	-	-	-	-	-	-	9,600
Interest	24,068	-	-	-	-	-	-	241,882
Intergovernmental revenues	-	-	-	-	-	-	-	18,412,713
Charges for current services	-	-	-	-	-	8,080,492	-	2,436,675
Miscellaneous	46,289	-	153,379	-	-	-	-	226,839
Total revenues	70,357	-	153,379	4,790	-	-	-	31,780,978
Expenditures:								
General government	-	-	-	-	-	-	-	1,457,930
Public safety	-	-	-	-	-	-	-	871,238
Public works	-	-	-	-	-	-	-	106,250
Highways & streets	-	-	-	-	-	-	-	7,265,140
Sanitation	-	-	-	-	-	-	-	6,504,655
Culture & recreation	-	-	-	-	-	-	-	123,360
Public welfare	-	-	-	-	-	-	-	8,022,325
Capital outlay	153,006	15,942	-	-	-	947,331	683,752	9,880,523
Debt Service:								
Principal	-	-	-	-	-	-	3,490,000	3,490,000
Interest	-	-	-	-	-	-	2,906,146	2,906,146
Total expenditures	153,006	15,942	-	-	-	947,331	6,396,146	40,627,567
Excess (deficiency) of revenues over expenditures	(82,649)	(15,942)	153,379	4,790	-	(947,331)	(6,396,146)	(8,846,589)
Other financing sources (uses):								
Operating transfers in	-	-	-	-	-	-	6,787,864	11,871,213
Operating transfers out	-	-	-	-	-	-	-	(2,403,000)
Total other financing sources (uses)	-	-	-	-	-	-	6,787,864	9,468,213
Net change in fund balances	(82,649)	(15,942)	153,379	4,790	-	(947,331)	391,718	621,624
Fund balance, July 1	1,187,833	646,610	517,970	59,458	8,058	3,532,507	3,273,282	17,312,924
Fund balance, June 30	\$ 1,105,184	\$ 630,668	\$ 671,349	\$ 64,248	\$ 8,058	\$ 2,585,176	\$ 3,665,000	\$ 17,934,548

(concluded)

County of Kauai, Hawaii

Highway Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note B)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Utility franchise tax	\$ 2,275,000	\$ 2,275,000	\$ 2,320,446	\$ 45,446
Fuel tax	3,575,000	3,575,000	3,824,428	249,428
Total taxes	5,850,000	5,850,000	6,144,874	294,874
Licenses and permits:				
Motor vehicle weight tax	2,861,000	2,861,000	3,184,788	323,788
Interest	-	-	38,431	38,431
Intergovernmental revenues	35,000	35,000	35,502	502
Total revenues	8,746,000	8,746,000	9,403,595	657,595
Expenditures				
Highway and Streets-Road maintenance:				
Administration	285,050	294,350	288,341	6,009
Hanapepe baseyard	800,720	798,120	795,711	2,409
Kapaa baseyard	911,412	898,112	887,150	10,962
Hanalei baseyard	523,060	538,760	534,379	4,381
Road signs and marking	248,956	239,356	235,210	4,146
Auto maintenance and motor pool	1,805,923	1,607,537	1,572,634	34,903
Maintenance-street lights	625,000	628,600	628,505	95
Equipment	270,000	365,000	96,210	268,790
Capital leases	203,886	203,886	203,884	2
Social security taxes	275,000	275,000	246,964	28,036
Public employees' health fund	504,000	504,000	504,000	-
Workers' compensation	130,000	98,400	52,881	45,519
Unemployment compensation	7,004	7,004	-	7,004
Employees' retirement system	230,600	230,600	230,600	-
Central services cost	679,362	679,362	615,752	63,610
Highway administrative overhead	141,101	272,987	230,190	42,797
Total expenditures	7,641,074	7,641,074	7,122,411	518,663
Excess of revenues over expenditures	1,104,926	1,104,926	2,281,184	1,176,258
Other financing sources (uses):				
Operating transfers out	(1,850,000)	(1,850,000)	(1,850,000)	-
Total other financing sources (uses)	(1,850,000)	(1,850,000)	(1,850,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses (Note A)	\$ (745,074)	\$ (745,074)	431,184	\$ 1,176,258
Encumbrances lapsed			9,251	
Unreserved-undesignated fund balance, July 1, 2002			1,789,527	
Unreserved-undesignated fund balance, June 30, 2003			2,229,962	
Reconciliation to Fund Balance:				
Add: Encumbrances, June 30, 2003			330,142	
Fund balance, June 30, 2003			\$ 2,560,104	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

Note B. Actual expenditures on budgetary basis includes current reserves for encumbrances and excludes expense payments on prior encumbrances.

County of Kauai, Hawaii

Liquor Fund

Schedule of Revenues, Expenditures and Changes in Fund

Balance - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note B)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits—				
Business licenses, alcoholic beverage and				
liquor licenses	\$ 395,500	\$ 395,500	\$ 644,286	\$ 248,786
Interest	15,000	15,000	4,466	(10,534)
Miscellaneous	-	-	16,054	16,054
Total revenues	410,500	410,500	664,806	254,306
Expenditures - public safety:				
Salaries and wages	324,108	324,108	314,013	10,095
Other expenses	55,100	55,100	28,525	26,575
Equipment	32,500	36,700	32,946	3,754
Travel	60,495	60,495	29,793	30,702
Indirect cost	185,000	217,800	217,606	194
Worker's compensation	100,000	63,000	-	63,000
Total expenditures	757,203	757,203	622,883	134,320
Excess (deficiency) of revenues over (under) expenditures (Note A)	\$ (346,703)	\$ (346,703)	41,923	\$ 388,626
Unreserved-undesignated fund balance, July 1, 2002			175,078	
Unreserved-undesignated fund balance, June 30, 2003			217,001	
Reconciliation to Fund Balance:				
Add: Encumbrances, June 30, 2003			21,661	
Fund balance, June 30, 2003			\$ 238,662	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

Note B. Actual expenditures on budgetary basis includes current reserves for encumbrances and excludes expense payments on prior encumbrances.

County of Kauai, Hawaii

Beautification Fund **Schedule of Revenues, Expenditures and Changes in Fund** **Balance - Budget and Actual (Non-GAAP Budgetary Basis)** **For the Year Ended June 30, 2003**

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note B)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Licenses and permits	\$ 252,660	\$ 252,660	\$ 318,279	\$ 65,619
Total revenues	252,660	252,660	318,279	65,619
Expenditures - highway and streets:				
Disposal of abandoned vehicles	300,000	300,000	293,348	6,652
Beautification projects	102,660	102,660	93	102,567
Total expenditures	402,660	402,660	293,441	109,219
Excess (deficiency) of revenues over (under) expenditures (Note A)	\$ (150,000)	\$ (150,000)	24,838	\$ 174,838
Encumbrances lapsed			846	
Unreserved-undesignated fund balance, July 1, 2002			228,251	
Unreserved-undesignated fund balance, June 30, 2003			253,935	
Reconciliation to Fund Balance:				
Add: Encumbrances, June 30, 2003			105,482	
Fund balance, June 30, 2003			\$ 359,417	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

Note B. Actual expenditures on budgetary basis includes current reserves for encumbrances and excludes expense payments on prior encumbrances.

County of Kauai, Hawaii

Criminal Assets Forfeiture Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note B)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Interest	\$ -	\$ -	\$ 8,891	\$ 8,891
Miscellaneous	-	-	384,044	384,044
Total revenues	-	-	392,935	392,935
Expenditures - public safety:				
Police special fund	106,750	106,750	-	106,750
Equipment	200,000	200,000	2,830	197,170
Total expenditures	306,750	306,750	2,830	303,920
Excess (deficiency) of revenues over (under) expenditures (Note A)	<u>\$ (306,750)</u>	<u>\$ (306,750)</u>	390,105	<u>\$ 696,855</u>
Encumbrances lapsed				
Unreserved-undesignated fund balance, July 1, 2002			568,084	
Unreserved-undesignated fund balance / fund balance, June 30, 2003			<u>\$ 958,189</u>	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

Note B. Actual expenditures on budgetary basis includes current reserves for encumbrances and excludes expense payments on prior encumbrances.

County of Kauai, Hawaii

Solid Waste Disposal Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Rents and concessions	\$ -	\$ -	\$ 9,600	\$ - 9,600
Interest	-	-	164,678	164,678
Charges for current services:				
Tipping fees	17,000	17,000	19,660	2,660
Disposal fees	2,000,000	2,000,000	2,417,015	417,015
Total revenues	2,017,000	2,017,000	2,610,953	593,953
Expenditures - sanitation:				
Solid waste disposal	1,256,837	1,126,594	1,044,286	82,308
Post closure	300,000	300,000	1,602	298,398
State solid waste surcharge	27,300	28,400	28,372	28
Kekaha landfill operation	1,591,000	1,591,000	1,591,000	-
Financial assurance (closure)	256,740	295,740	295,705	35
Greenwaste processing	235,000	235,000	-	235,000
Metals recycling center	308,000	308,000	286,004	21,996
Future landfill site	100,000	84,900	-	84,900
Equipment	285,000	288,633	222,320	66,313
Capital leases	80,275	80,275	37,030	43,245
Central services cost	384,229	384,229	310,403	73,826
Solid waste collections	1,213,099	1,207,099	1,186,717	20,382
Kauai recycling center	558,673	571,283	547,598	23,685
FICA taxes	165,000	165,000	152,223	12,777
Public employees' health fund	288,000	288,000	288,000	-
Worker's compensation	75,000	170,000	154,473	15,527
Unemployment compensation	2,500	2,500	-	2,500
Pension contributions	115,300	115,300	115,300	-
Total expenditures	7,241,953	7,241,953	6,261,033	980,920
Deficiency of revenues under expenditures	(5,224,953)	(5,224,953)	(3,650,080)	1,574,873
Other financing sources--				
Operating transfers in	5,224,953	5,224,953	3,583,349	1,641,604
Excess (deficiency) of revenues over (under) expenditures and other financing sources	\$ -	\$ -	(66,731)	\$ (66,731)
Encumbrances lapsed			28,713	
Unreserved-undesignated fund balance, July 1, 2002			38,018	
Unreserved-undesignated fund balance, June 30, 2003			-	
Reconciliation to Fund Balance:				
Add: Reserve for encumbrances, June 30, 2003			892,543	
Fund Balance, June 30, 2003			\$ 892,543	

Note A. Actual expenditures on budgetary basis includes current reserves for encumbrances and excludes expense payments on prior encumbrances.

County of Kauai, Hawaii

Public Housing Fund

Schedule of Revenues, Expenses and Changes in Fund

Equity - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues - rents and concessions:				
Paanau housing project	\$ 525,640	\$ 525,640	\$ 497,645	\$ (27,995)
Kalepa housing project	514,355	514,355	523,221	8,866
Other	450,000	450,000	1,785	(448,215)
Total revenues	1,489,995	1,489,995	1,022,651	(467,344)
Expenses - public welfare:				
Revolving buy back account	800,000	800,000	394,866	405,134
Housing projects	50,000	50,000	-	50,000
Kalepa housing operating cost	564,568	565,580	393,408	172,172
Paanau housing operating cost	304,715	352,787	184,789	167,998
Revenue bond payments	220,925	220,925	220,925	-
Total expenses	1,940,208	1,989,292	1,193,988	795,304
Excess (deficiency) of revenues over (under) expenses (Note A)	<u>\$ (450,213)</u>	<u>\$ (499,297)</u>	(171,337)	<u>\$ 327,960</u>
Unreserved-undesignated fund balance, July 1, 2002			3,856,950	
Unreserved-undesignated fund balance, June 30, 2003			<u>\$ 3,685,613</u>	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

County of Kauai, Hawaii

Sewer Fund

Schedule of Revenues, Expenses and Changes in Fund

Equity- Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note B)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Interest	\$ 25,000	\$ 25,000	\$ 48,503	\$ 23,503
Charges for services:				
Sewer charges:				
Residential	1,900,000	1,900,000	1,895,591	(4,409)
Commercial	3,545,544	3,545,544	3,399,794	(145,750)
Connection charge	2,000	2,000	1,830	(170)
Sludge disposal	40,000	40,000	62,525	22,525
Capacity assessment	-	-	239,476	239,476
Total revenues	5,512,544	5,512,544	5,647,719	135,175
Expenses - sanitation:				
Sanitation and waste removal:				
Operational and administrative	4,673,473	4,090,740	3,017,210	1,073,530
Central services cost	322,037	446,026	446,026	-
Capital costs	111,300	111,300	64,383	46,917
SRF loan payments	1,547,733	1,547,733	1,191,733	356,000
Employee fringe	411,180	458,744	444,711	14,033
Total expenses	7,065,723	6,654,543	5,164,063	1,490,480
Excess (deficiency) of revenues over (under) expenses (Note A)	\$ (1,553,179)	\$ (1,141,999)	483,656	\$ 1,625,655
Encumbrances lapsed			29,526	
Unreserved-undesignated fund balance, July 1, 2002			2,631,183	
Unreserved-undesignated fund balance, June 30, 2003			\$ 3,144,365	

Note A. Estimated unreserved-undesignated fund balances as of June 30, 2002 are the funding sources of these budgeted deficiencies.

Note B. Actual expenditures on budgetary basis include current reserves for encumbrances and exclude expenditures on prior encumbrances.

County of Kauai, Hawaii

Golf Fund

Schedule of Revenues, Expenses and Changes in Fund

Equity - Budget and Actual (Non-GAAP Budgetary Basis)

For the Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts (Budgetary Basis) (Note A)	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Rents and concessions:				
Food and Beverage	\$ 27,600	\$ 27,600	\$ 27,109	\$ (491)
Pro shop	3,300	3,300	3,300	-
Range Ball	63,100	63,100	85,200	22,100
Golf Carts	220,296	220,296	225,195	4,899
Interest	-	-	-	-
Charges for services--				
Green fees and locker fees	978,630	978,630	977,287	(1,343)
Total revenues	1,292,926	1,292,926	1,318,091	25,165
Other financing sources--				
Operating transfers from General Fund	614,238	614,238	189,138	(425,100)
Total revenues and other financing sources	1,907,164	1,907,164	1,507,229	(399,935)
Expenses - culture and recreation:				
Operational and administrative	1,067,545	1,067,545	889,389	178,156
Central services cost	311,389	311,389	150,694	160,695
Lease payments	50,393	50,393	50,963	(570)
Debt service payments	204,217	204,217	204,217	-
Employee fringe	273,620	273,620	251,150	22,470
Total culture and recreation	1,907,164	1,907,164	1,546,413	360,751
Excess (deficiency) of revenues and other financing sources over (under) expenses	\$ -	\$ -	(39,184)	\$ (39,184)
Encumbrances lapsed			407	
Unreserved-undesignated fund balance, July 1, 2002			21,215	
Unreserved-undesignated fund balance, June 30, 2003			\$ (17,562)	

Note A. Actual expenditures on budgetary basis include current reserves for encumbrances and exclude expenditures on prior encumbrances.

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**STATISTICAL SECTION
(UNAUDITED)**

County of Kauai, Hawaii

TABLE 1

General Governmental Expenditures by Function (1)
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	GENERAL GOVERNMENT	PUBLIC SAFETY	PUBLIC WORKS	HIGHWAYS AND STREETS	SANITATION	CULTURE AND RECREATION	PUBLIC WELFARE	CAPITAL OUTLAY	DEBT SERVICE	TOTAL
1994	\$ 58,283,249	\$ 14,867,312	\$ 3,318,480	\$ 5,261,488	\$ 1,987,715	\$ 2,779,795	\$ 15,581,221	\$ 16,919,520	\$ 6,064,092	\$ 125,062,872
1995	48,204,518	14,893,320	3,657,238	5,002,667	1,601,267	2,924,884	17,156,597	38,110,927	5,784,843	137,241,061
1996	41,462,921	14,492,142	3,520,133	5,322,564	3,453,566	3,029,016	27,428,420	12,065,471	5,619,473	116,393,706
1997	31,556,913	14,918,834	3,814,145	5,356,443	3,839,029	2,870,988	12,144,478	10,269,099	3,588,588	89,358,517
1998	21,732,410	15,825,352	3,761,002	5,322,342	5,195,993	3,051,753	18,980,090	4,986,600	3,300,453	82,155,395
1999	23,926,435	17,192,372	4,413,839	5,755,249	4,864,358	3,793,496	15,442,507	6,227,402	3,709,218	85,324,876
2000	17,015,101	17,457,817	3,991,561	6,404,313	4,657,851	3,617,909	15,948,559	10,289,092	5,469,656	84,851,359
2001	18,706,269	18,731,088	4,252,186	6,464,385	5,585,471	3,307,763	10,726,565	11,010,019	5,347,298	84,131,044
2002	22,587,568	21,111,419	4,241,775	7,091,524	6,204,468	3,559,490	11,686,067	24,467,940	6,263,243	107,213,494
2003	21,740,154	21,759,541	4,475,086	7,265,140	6,687,899	4,234,260	13,926,744	16,620,294	6,396,146	103,105,264

Note:

(1) Includes general, special revenue, capital projects and debt service funds.

Source:

Department of Finance

County of Kauai, Hawaii

TABLE 2

General Governmental Revenues by Source (1)
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	TAXES	LICENSES AND PERMITS	RENTS AND CONCESSIONS	INTERESTS	INTER- GOVERNMENTAL REVENUES	CHARGES FOR CURRENT SERVICES	MISCELLANEOUS REVENUES	TOTAL
1994	\$ 32,129,640	\$ 2,786,726	\$ 1,019,091	\$ 1,525,985	\$ 70,470,925	\$ 1,512,860	\$ 1,645,573	\$ 111,090,800
1995	31,453,905	2,776,402	863,384	2,420,061	79,247,314	1,506,385	3,278,316	121,545,767
1996	35,078,318	2,596,002	877,715	1,347,417	67,046,656	1,497,673	2,672,936	111,116,717
1997	37,020,795	2,732,176	539,900	938,464	41,884,629	2,267,013	1,565,135	86,948,112
1998	36,088,974	2,794,725	587,944	927,949	35,729,766	2,643,577	2,027,962	80,800,897
1999	36,509,455	3,028,165	614,554	1,278,027	33,629,531	2,599,937	8,139,365	85,799,034
2000	40,955,507	3,799,222	609,456	2,152,612	35,223,602	2,872,279	650,597	86,263,275
2001	43,501,111	4,663,591	629,748	3,112,606	30,398,453	3,141,315	853,551	86,300,375
2002	46,265,892	4,974,790	591,484	2,070,987	34,100,246	2,915,628	1,371,965	92,290,992
2003	50,739,387	5,561,473	631,226	1,410,032	37,611,547	3,296,678	405,681	99,656,024

Note:

(1) Includes general, special revenue, capital projects and debt service funds.

Source:

Department of Finance

County of Kauai, Hawaii

TABLE 2A

General Governmental Tax Revenues by Source
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	PROPERTY TAX	FRANCHISE TAX	FUEL TAX	PUBLIC SERVICES COMPANY TAX (2)	TOTAL	TRANSIENT ACCOMMODATION TAX (1)
1994	\$ 28,417,301	\$ 1,322,874	\$ 2,389,465	\$ -	32,129,640	\$ 10,525,265
1995	27,566,133	1,386,442	2,501,330	-	31,453,905	11,510,110
1996	31,082,059	1,572,949	2,423,310	-	35,078,318	13,167,111
1997	32,789,956	1,827,217	2,403,622	-	37,020,795	14,401,213
1998	31,612,209	2,038,114	2,438,651	-	36,088,974	14,587,254
1999	32,126,776	1,850,826	2,531,853	-	36,509,455	11,853,431
2000	35,588,816	1,949,011	3,417,681	-	40,955,508	10,950,151
2001	37,652,852	2,356,920	3,491,339	-	43,501,111	11,508,586
2002	38,075,731	2,323,393	3,523,065	2,343,703	46,265,892	10,239,936
2003	42,265,888	2,320,446	3,824,428	2,328,625	50,739,387	11,099,370

Notes:

- (1) Hotel room tax (included as intergovernmental revenues in CAFR)
(2) Tax effective as of July 1, 2001

Source:
Department of Finance

County of Kauai, Hawaii

TABLE 3

Property Tax Levies and Collections
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	TOTAL TAX LEVY	CURRENT TAX COLLECTIONS	PERCENT OF CURRENT TAXES COLLECTED	DELINQUENT TAX COLLECTIONS	TOTAL TAX COLLECTIONS	RATIO OF TOTAL TAX COLLECTIONS TO TAX LEVY	OUTSTANDING DELINQUENT TAXES	RATIO OF DELINQUENT TAXES TO TOTAL LEVY
1994	\$ 34,468,021	\$ 33,441,786	97.0 %	\$ 706,834	\$ 34,148,620	99.1 %	\$ 611,467	1.8 %
1995	30,144,532	29,292,483	97.2	1,315,980	30,608,463	101.5	536,680	1.8
1996	30,861,492	30,067,831	97.4	761,261	30,829,092	99.9	556,771	1.8
1997	32,316,193	31,942,944	98.8	317,769	32,260,713	99.8	417,291	1.3
1998	32,218,605	31,697,331	98.4	616,463	32,313,794	100.3	497,850	1.5
1999	31,837,765	31,328,681	98.4	714,931	32,043,612	100.6	414,328	1.3
2000	35,073,860	34,566,820	98.6	586,720	35,153,540	100.2	348,368	1.0
2001	36,993,236	36,303,100	98.1	371,757	36,674,857	99.1	407,913	1.1
2002	40,075,981	37,847,923	94.4	421,528	38,269,451	95.5	556,184	1.4
2003	42,282,048	41,667,609	98.5	617,348	42,284,957	100.0	618,302	1.5

Source:
Department of Finance

County of Kauai, Hawaii

TABLE 4

Assessed and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years (Value in Thousands-Unaudited)

FISCAL YEAR	ASSESSED VALUE/ESTIMATED ACTUAL VALUE (2)				EXEMPTIONS	NET TAXABLE VALUE	NET TAXABLE TO EST. ACTUAL VALUE
	LAND	BUILDINGS	TOTAL				
1994	\$ 3,683,137	\$ 1,792,492	(1) \$ 5,475,629	\$	761,713	\$ 4,713,916	86.1 %
1995	3,657,904	2,194,177	5,852,081		778,356	5,073,725	86.7
1996	3,610,413	2,452,110	6,062,523		815,518	5,247,005	86.5
1997	3,627,881	2,774,014	6,401,895		963,184	5,438,711	85.0
1998	3,395,747	2,949,176	6,344,923		854,708	5,490,215	86.5
1999	3,048,904	2,926,064	5,974,968		941,353	5,033,615	84.2
2000	3,125,280	2,993,369	6,118,649		959,554	5,159,095	84.3
2001	3,253,250	3,090,767	6,344,017		904,293	5,439,724	85.7
2002	3,318,945	3,447,559	6,766,504		896,115	5,870,389	86.8
2003	3,921,582	3,538,013	7,459,595		939,555	6,520,040	87.4

Notes: Personal property is not taxed in the County of Kauai

Taxable properties are assessed at 100% of estimated fair market value.

(1) Decline in estimated actual value of buildings during fiscal 1994 due to effects of Hurricane Iniki.

(2) Values presented exclude government exemptions and 50% of value on appeal

Source:

Department of Finance

County of Kauai, Hawaii

TABLE 5

Real Property Assessed Values by Classification and Tax Rates
Last Ten Fiscal Years (Value in Thousands-Unaudited)

FISCAL YEAR	CLASS OF PROPERTY	VALUE OF NET TAXABLE LAND (1)	LAND TAX RATES PER \$1,000	VALUE OF NET TAXABLE BUILDING (1)	BUILDING TAX RATES PER \$1,000	VALUE OF NET TAXABLE REAL PROPERTY
1994	Single Family Residential	\$ 1,168,898	\$ 4.93	\$ 319,246	\$ 3.94	\$ 1,488,144
	Homestead	663,684	4.04	159,957	3.18	823,641
	Agriculture	323,902	7.89	75,769	3.94	399,671
	Conservation	95,312	7.89	5,895	3.94	101,207
	Hotel/resort	300,977	7.99	354,798	7.59	655,775
	Apartment	337,772	7.99	296,849	7.59	634,621
	Commercial	286,571	7.99	145,613	7.59	432,184
	Industrial	124,045	7.99	54,628	7.59	178,673
	Total	\$ 3,301,161		\$ 1,412,755		\$ 4,713,916
1995	Single Family Residential	\$ 1,125,574	\$ 4.93	\$ 396,112	\$ 3.94	\$ 1,521,686
	Homestead	727,642	4.04	254,766	2.93	982,408
	Agriculture	320,511	7.39	81,869	3.94	402,380
	Conservation	89,556	7.89	8,907	3.94	98,463
	Hotel/resort	310,354	7.99	399,755	7.59	710,109
	Apartment	332,388	7.99	415,371	7.59	747,759
	Commercial	281,863	7.99	148,132	3.80	429,995
	Industrial	125,979	7.99	54,946	3.80	180,925
	Total	\$ 3,313,867		\$ 1,759,858		\$ 5,073,725

(Continued)

County of Kauai, Hawaii

TABLE 5

Real Property Assessed Values by Classification and Tax Rates
Last Ten Fiscal Years (Value in Thousands-Unaudited)

(Continued)

FISCAL YEAR	CLASS OF PROPERTY	VALUE OF NET TAXABLE LAND (1)	LAND TAX RATES PER \$1,000	VALUE OF NET TAXABLE BUILDING (1)	BUILDING TAX RATES PER \$1,000	VALUE OF NET TAXABLE REAL PROPERTY
1996	Single Family Residential	\$ 1,133,459	\$ 4.93	\$ 458,206	\$ 3.94	\$ 1,591,665
	Homestead	771,784	4.04	339,007	3.18	1,110,791
	Agriculture	327,906	7.39	100,194	3.94	428,100
	Conservation	83,832	7.89	10,701	3.94	94,533
	Hotel/resort	278,154	7.99	341,038	7.59	619,192
	Apartment	291,699	7.99	457,783	7.59	749,482
	Commercial	287,023	7.99	172,442	7.59	459,465
	Industrial	125,568	7.99	68,209	7.59	193,777
	Total	\$ 3,299,425		\$ 1,947,580		\$ 5,247,005

(Continued)

1997	Single Family Residential	\$ 1,123,899	\$ 4.93	\$ 512,770	\$ 3.94	\$ 1,636,669
	Homestead	805,131	4.04	395,702	3.18	1,200,833
	Agriculture	329,550	7.39	139,037	3.94	468,587
	Conservation	82,716	7.89	11,450	3.94	94,166
	Hotel/resort	241,913	7.99	353,020	7.59	594,933
	Apartment	287,039	7.99	475,118	7.59	762,157
	Commercial	274,985	7.99	209,762	7.59	484,747
	Industrial	119,625	7.99	76,994	7.59	196,619
	Total	\$ 3,264,858		\$ 2,173,853		\$ 5,438,711

(Continued)

County of Kauai, Hawaii

TABLE 5

Real Property Assessed Values by Classification and Tax Rates
Last Ten Fiscal Years (Value in Thousands-Unaudited)

(Continued)

FISCAL YEAR	CLASS OF PROPERTY	VALUE OF NET TAXABLE LAND (1)	LAND TAX RATES PER \$1,000	VALUE OF NET TAXABLE BUILDING (1)	BUILDING TAX RATES PER \$1,000	VALUE OF NET TAXABLE REAL PROPERTY
1998	Single Family Residential	\$ 1,051,365	4.93	\$ 544,665	3.94	\$ 1,596,030
	Homestead	730,065	4.04	413,182	3.18	1,143,247
	Agriculture	336,223	7.39	152,175	3.94	488,398
	Conservation	84,057	7.89	11,502	3.94	95,559
	Hotel/resort	291,554	7.99	613,868	7.59	905,422
	Apartment	260,013	7.99	331,373	7.59	591,386
	Commercial	260,208	7.99	225,638	7.59	485,846
	Industrial	103,792	7.99	80,535	7.59	184,327
	Total	\$ 3,117,277		\$ 2,372,938		\$ 5,490,215
1999	Single Family Residential	\$ 942,262	5.24	\$ 529,408	4.25	\$ 1,471,670
	Homestead	591,784	4.35	405,434	3.49	997,218
	Agriculture	292,233	7.70	162,541	4.25	454,774
	Conservation	96,171	8.20	10,896	4.25	107,067
	Hotel/resort	258,013	8.30	594,967	7.90	852,980
	Apartment	208,627	8.30	312,331	7.90	520,958
	Commercial	234,078	8.30	212,187	7.90	446,265
	Industrial	99,664	8.30	83,019	7.90	182,683
	Total	\$ 2,722,832		\$ 2,310,783		\$ 5,033,615

(Continued)

County of Kauai, Hawaii

TABLE 5

Real Property Assessed Values by Classification and Tax Rates
Last Ten Fiscal Years (Value in Thousands-Unaudited)

(Continued)

FISCAL YEAR	CLASS OF PROPERTY	VALUE OF NET TAXABLE LAND (1)	LAND TAX RATES PER \$1,000	VALUE OF NET TAXABLE BUILDING (1)	BUILDING TAX RATES PER \$1,000	VALUE OF NET TAXABLE REAL PROPERTY
2000	Single Family Residential	\$ 987,630	\$ 5.74	\$ 530,612	4.75	\$ 1,518,242
	Homestead	614,378	4.85	394,767	3.99	1,009,145
	Agriculture	332,386	8.20	161,800	4.75	494,186
	Conservation	85,643	8.70	12,712	4.75	98,355
	Hotel/resort	259,177	8.80	646,568	8.40	905,745
	Apartment	215,509	8.80	318,560	8.40	534,069
	Commercial	214,390	8.80	219,521	8.40	433,911
	Industrial	83,340	8.80	82,102	8.40	165,442
	Total	\$ 2,792,453		\$ 2,366,642		\$ 5,159,095
2001	Single Family Residential	\$ 962,020	\$ 5.74	\$ 536,359	4.75	\$ 1,498,379
	Homestead	633,728	4.85	426,580	3.99	1,060,308
	Agriculture	464,697	8.20	173,320	4.75	638,017
	Conservation	85,054	8.70	12,568	4.75	97,622
	Hotel/resort	282,009	8.80	705,066	8.40	987,075
	Apartment	216,648	8.80	342,829	8.40	559,477
	Commercial	219,736	8.80	210,990	8.40	430,726
	Industrial	82,585	8.80	85,535	8.40	168,120
	Total	\$ 2,946,477		\$ 2,493,247		\$ 5,439,724

(Continued)

County of Kauai, Hawaii

TABLE 5

Real Property Assessed Values by Classification and Tax Rates
Last Ten Fiscal Years (Value in Thousands-Unaudited)

(Continued)

FISCAL YEAR	CLASS OF PROPERTY	VALUE OF NET TAXABLE LAND (1)	LAND TAX RATES PER \$1,000	VALUE OF NET TAXABLE BUILDING (1)	BUILDING TAX RATES PER \$1,000	VALUE OF NET TAXABLE REAL PROPERTY
2002	Single Family Residential	\$ 975,098	\$ 5.64	\$ 600,032	\$ 4.65	\$ 1,575,130
	Homestead	647,879	4.65	489,620	3.79	1,137,499
	Agriculture	517,418	8.10	201,151	4.65	718,569
	Conservation	87,034	8.60	14,414	4.65	101,448
	Hotel/resort	288,887	8.70	784,192	8.30	1,073,079
	Apartment	223,264	8.70	340,694	8.30	563,958
	Commercial	221,859	8.70	224,411	8.30	446,270
	Industrial	79,813	8.70	174,623	8.30	254,436
	Total	\$ 3,041,252		\$ 2,829,137		\$ 5,870,389
2003	Single Family Residential	\$ 1,184,485	\$ 5.49	\$ 605,262	\$ 4.50	\$ 1,789,747
	Homestead	770,997	4.35	561,654	3.64	1,332,651
	Agriculture	693,850	7.95	208,696	4.50	902,546
	Conservation	124,669	8.45	16,314	4.50	140,983
	Hotel/resort	307,164	8.55	809,517	8.15	1,116,681
	Apartment	232,494	8.55	389,546	8.15	622,040
	Commercial	229,218	8.55	212,928	8.15	442,146
	Industrial	82,273	8.55	90,973	8.15	173,246
	Total	\$ 3,625,150		\$ 2,894,890		\$ 6,520,040

Note:

(1) Amounts presented net of real property tax exemption and 50% appeals.

Source:

Department of Finance, Real Property Tax Division

(Concluded)

County of Kauai, Hawaii

TABLE 6

Principal Taxpayers for the Fiscal Year Ended June 30, 2003 (Unaudited)

RANK	TAXPAYER	TYPE OF BUSINESS	ASSESSED VALUATION	AMOUNT OF TAXES	PERCENT OF COUNTY'S TOTAL ASSESSED VALUATION
1	Kawailoa Development	Resort Development	\$ 140,713,400	\$ 2,308,148	2.2
2	Princeville Corporation	Resort Development	146,313,700	2,127,782	2.2
3	Marriott Kauai Ownershpi	Real Estate Development	217,766,000	1,788,354	3.3
4	Grove Farm Company, Inc.	Real Estate Development	148,493,600	1,466,048	2.3
5	Knudsen, Eric A. Trust	Resort Development	131,281,700	1,189,026	2.0
6	Kauai Lagoons Resort Company, Ltd.	Resort Development	55,532,200	907,988	0.9
7	Falko Partners, LLC.	Resort Development	25,857,300	867,026	0.4
8	Niu Pia Farms, Ltd.	Resort Development	74,460,600	602,252	1.1
9	B.P. Bishop Trust Estate	Real Estate Holdings	31,119,100	470,168	0.5
10	Visionary, LLC.	Real Estate Holdings	24,783,600	446,484	0.4
			\$ 996,321,200	\$ 12,173,276	15.3
					%

Source:

Department of Finance, Real Property Tax Division

County of Kauai, Hawaii

TABLE 7

Computation of Legal Debt Margin
June 30, 2003 (Unaudited)

Net assessed value of real property for year ended June 30, 2003	\$	6,520,040,000
Legal debt limit		
Debt limitation - 15% of total assessed value (1)		978,006,000
Debt applicable to limitation (1)		
General obligation and public improvement bonds payable of the General Long-term Debt Account Group at June 30, 2001	\$	51,580,000
Less amount available for retirement of general long-term debt in the debt service fund		<u>3,665,000</u>
Total debt applicable to limitation		<u>47,915,000</u>
Legal debt margin	\$	<u>930,091,000</u>

Note:

(1) Per State of Hawaii Constitution.

Source:

Department of Finance

County of Kauai, Hawaii

TABLE 8

Ratio of Net General Bonded Debt to Assessed Value and
Net Bonded Debt Per Capita
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	POPULATION (1)	ASSESSED VALUE (2)	RATIO OF			NET BONDED DEBT PER CAPITA
			NET GENERAL BONDED DEBT TO ASSESSED VALUE	NET GENERAL BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA	
1994	55,533	\$ 4,713,916,000	\$	0.8	\$	706.79
1995	55,934	5,073,725,000	36,210,000	0.7		647.37
1996	56,592	5,247,005,000	32,640,000	0.6		576.76
1997	56,423	5,438,710,000	30,840,000	0.6		546.59
1998	56,603	5,490,215,000	29,295,000	0.5		517.55
1999	56,539	5,033,615,000	27,115,000	0.5		479.58
2000	58,463	5,159,095,000	46,521,878	0.9		795.75
2001	59,223	5,439,725,000	55,333,475	1.0		934.32
2002	59,946	5,870,389,000	51,796,718	0.9		864.06
2003	(4)	6,520,040,000	47,915,000	0.7		(4)

Notes:

- (1) Includes armed forces and their dependents.
- (2) Assessed values are presented net of exemptions and 50% value on appeal.
- (3) Excludes bonded debt of the Department of Water and amount available for retirement of general long-term debt in the debt service fund.
- (4) Information currently not available.

Source:

State of Hawaii Data Book
Department of Finance, Real Property Tax Division

County of Kauai, Hawaii

TABLE 9

Ratio of Annual Debt Service Expenditures for General Obligation and Public Improvement bonds to Total General Governmental Expenditures Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	GENERAL OBLIGATION DEBT (2)			TOTAL GENERAL EXPENDITURES (1)	RATIO OF DEBT SERVICE TO GENERAL EXPENDITURES %
	PRINCIPAL	INTEREST	TOTAL DEBT SERVICE		
1994	\$ 3,190,000	\$ 2,874,093	\$ 6,064,093	\$ 125,062,872	4.8
1995	3,365,000	2,389,843	5,754,843	137,241,061	4.2
1996	3,570,000	2,049,473	5,619,473	116,393,705	4.8
1997	1,800,000	1,788,588	3,588,588	88,358,517	4.1
1998	1,650,000	1,650,453	3,300,453	82,155,385	4.0
1999	2,180,000	1,529,218	3,709,218	85,350,590	4.3
2000	2,295,000	1,424,656	3,719,656	84,851,359	4.4
2001	2,405,000	2,897,336	5,302,336	84,131,044	6.3
2002	3,800,000	2,463,243	6,263,243	106,471,203	5.9
2003	3,490,000	2,906,146	6,396,146	103,105,264	6.2

Notes:

- (1) Includes expenditures of the general, special revenue, capital projects, and debt service funds.
- (2) Excludes general obligation bonds reported by the Department of Water and Enterprise funds and refunded debt.

Source:
Department of Finance

County of Kauai, Hawaii

TABLE 10

Computation of Direct and Overlapping Bonded Debt General Obligation Bonds
June 30, 2003 (Unaudited)

NOT APPLICABLE

County of Kauai, Hawaii

TABLE 11

Demographic Statistics
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	POPULATION (1)	PER CAPITA INCOME	SCHOOL ENROLLMENT	UNEMPLOYMENT RATE
1994	55,533	\$ 20,834	10,724	14.3 %
1995	55,932	21,683	10,772	11.4
1996	56,592	21,680	11,176	12.2
1997	56,423	21,941	11,040	11.3
1998	56,603	22,277	10,903	10.6
1999	56,539	23,061	10,866	7.7
2000	58,463	23,717	10,719	6.5
2001	59,223	23,738	10,457	7.0
2002	59,946	24,840	10,313	4.0
2003	(2)	(2)	10,564	3.0

Notes:

- (1) Includes armed forces and their dependents.
- (2) Information currently not available.

Sources:

State of Hawaii Data Book, 1997
County Department of Economic Development
State of Hawaii Department of Education

County of Kauai, Hawaii

TABLE 12

Jobs by Industry

Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	Transportation		Wholesale &		Services	Lodging	Medical	Finance		Agriculture	Government
	Construction	Communication Utilities	Retail Trade	Real Estate				Insurance	Real Estate		
1994	1,882	1,707	6,021		2,647	1,741	448	1,058		1,058	4,088
1995	1,539	1,489	6,503		4,468	3,080	1,795	472		963	4,071
1996	1,197	1,513	6,438		4,602	3,358	1,795	498		829	3,979
1997	965	1,529	6,450		4,762	3,313	1,822	476		813	3,971
1998	925	1,602	6,605		5,061	3,468	1,859	424		821	4,017
1999	925	1,659	6,940		5,172	3,513	1,912	415		879	4,038
2000	1,075	1,715	7,279		5,412	3,725	1,875	373		971	4,125
2001	1,071	1,742	7,250		5,563	3,779	1,996	379		667	4,117
2002	1,217	1,900	7,163		5,804	3,629	2,021	400		663	4,208
2003	n/a	n/a	n/a		n/a	n/a	n/a	n/a		n/a	n/a

Sources:

Kauai Economic Outlook

County of Kauai, Hawaii

TABLE 13

Revenue Bond Coverage (1)
Last Ten Fiscal Years (Unaudited)

FISCAL YEAR	GROSS RECEIPTS	OPERATING EXPENSES (4)	NET RECEIPTS AVAILABLE FOR DEBT SERVICE	DEBT SERVICE REQUIREMENT (2)			COVERAGE (5)
				PRINCIPAL	INTEREST	TOTAL	
1994	\$	\$	\$	\$	\$	\$	\$
1995	813,859	78,820	735,039	105,000	297,250	402,250	332,789
1996	348,544	138,185	210,359	115,000	289,638	404,638	(194,279)
1997	2,105,731 (3)	147,779	1,957,952	1,830,000	186,325	2,016,325	(58,373)
1998	217,535	160,210	57,325	70,000	148,625	218,625	(161,300)
1999	539,402	129,966	409,436	80,000	143,550	223,550	185,886
2000	637,035	370,201	266,834	85,000	137,750	222,750	44,084
2001	900,063	554,861	345,202	90,000	131,587	221,587	123,615
2002	955,725	689,189	266,536	95,000	125,063	220,063	46,473
2003	1,006,368	645,593	360,775	100,000	118,175	218,175	142,600
	1,020,086	579,753	440,333	110,000	111,000	221,000	219,333

Notes:

- (1) The only revenue bond is the Paanau rental housing project issued in fiscal year 1992.
- (2) Includes principal and interest of revenue bonds only. It does not include the general obligation or public improvement bonds.
- (3) Receipts include contribution from HOME Investment Partnership Program Grant funds and residual bond proceeds used for the redemption of outstanding bond principal.
- (4) Operating expenses do not include depreciation expense.
- (5) Negative coverage is provided for in cash and fund balances.

Source:
Department of Finance

County of Kauai, Hawaii

TABLE 14

Miscellaneous Statistics

Year Ended June 30, 2003 (Unaudited)

Date of incorporation	January 4, 1904
Date first charter adopted	January 2, 1969
Form of government	Mayor/Council
Number of employees (excluding fire and police)	761
Permanent	576
Temporary	43
Exempt	115
Contract	27
Area in square miles	627
County facilities and services -	
Miles of streets	306
Number of streetlights	2438
Culture and recreation -	
Community centers	11
Parks	66
Beach parks	19
Gymnasiums	3
Swimming pools	2
Golf courses	1
Tennis courts	10
Baseball and softball fields	33
Basketball courts	19
Volleyball courts	2
Fire protection -	
Number of stations	7
Number of fire personnel and officers	150
Number of calls answered	3949
Number of inspections conducted	1,150
Police protection -	
Number of stations	5
Number of police personnel and officers	173
Number of patrol units	116
Total number of police units	165
Number of law violations -	
Physical arrest	2,935
Traffic violations	9,039
Parking violations	1,926
Sewerage system -	
Number of treatment plants	4
Number of service connections	3,833
Daily average treatment in gallons	2,392,000
Maximum daily capacity of treatment plant in gallons	5,100,000

(continued)

County of Kauai, Hawaii

TABLE 14

(Continued)

Miscellaneous Statistics

Year Ended June 30, 2003 (Unaudited)

Water system -	
Miles of water mains	407.71
Number of service connections	18,597
Number of fire hydrants	2,327
Annual water consumption in gallons	4.3 billion
Maximum daily capacity of plant in gallons	15.799 million
Facilities and services not included in the reporting entity -	
Education -	
Number of elementary schools	11
Number of elementary school instructors	349
Number of middle schools	2
Number of middle school instructors	147
Number of secondary schools	3
Number of secondary school instructors	253
Number of community colleges	1
Hospitals -	
Number of hospitals	3
Number of patient beds	307
Elections - 2002 general election	
Number of registered voters	37,392
Number of votes cast	23,464
Percentage of registered voters voting	62.8
Retail sales (in millions) -	
1994	360.0
1995	348.4
1996	280.5
1997	246.6
1998	242.1
1999	344.8
2000	491.4
2001	491.0
2002	(1)
2003	(1)

(1) information currently not available

(Continued)

County of Kauai, Hawaii**TABLE 14****(Continued)****Miscellaneous Statistics****Year Ended June 30, 2003 (Unaudited)****Building Permits -**

Fiscal Year	Number of Permits Issued	Value of Permits[*]
1994	1,485	111,855,769
1995	1,551	127,700,447
1996	1,378	99,557,778
1997	1,172	115,892,907
1998	1,070	85,958,474
1999	1,063	143,526,702
2000	1,302	132,460,095
2001	1,320	204,336,126
2002	1,284	239,855,174
2003	1,284	202,562,271

Sources:

Various County Departments and Agencies
State of Hawaii Department of Education
Statistical Abstract of Kauai Economy 1993

(Continued)

County of Kauai, Hawaii

TABLE 14
(Continued)

Miscellaneous Statistics
County of Kauai, Hawaii

Tourism Sector

Fiscal Year	Total Visitors (000's)	Avg. Length of Stay (days)	Total room stock (000's)	Avg. Daily Census (000's)
1994	860.7	6.3	5.9	13.4
1995	929.2	6.4	6.3	14.3
1996	975.4	6.4	6.8	15.3
1997	997.0	6.4	6.6	16.2
1998	1,078.8	6.6	7.0	17.2
1999	1,089.7	6.6	6.9	18.2
2000	1,074.8	6.6	7.2	18.1
2001	1,008.6	6.7	7.2	16.9
2002	1,001.3	6.7	7.2	17.4
2003	n/a	n/a	n/a	n/a

Sources:

Kauai Economic Outlook

(Concluded)